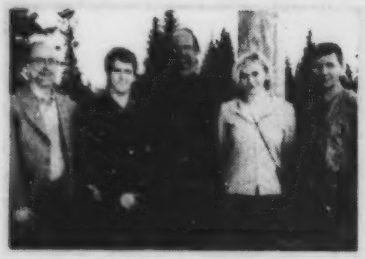
Yukon Development Corporation

Yukon Energy Corporation



2000 ANNUAL REPORT

CONTENTS

102-01892/

Letter from the Chair 1

Yukon Development Corporation

Corporate profile 3
The year in review 4
Management report 8
Auditor's report 9
Consolidated balance sheet 10
Consolidated statement of income and retained earnings 11
Consolidated statement of cash flows 12
Notes to consolidated financial statements 13
Non-consolidated balance sheet 28
Non-consolidated statement of income and retained earnings 29
Financial summary 30
Directors and staff at December 31, 2000 31

Yukon Energy Corporation

Electrical power facilities in the Yukon 33
Corporate profile 35
The year in review 36
Summary of utility operations 43
Operations and financial review 44
Auditor's report 48
Balance sheet 49
Statement of income and retained earnings 50
Statement of cash flows 51
Notes to financial statements 52
Directors and staff at December 31, 2000 66

Yukon Development Corporation

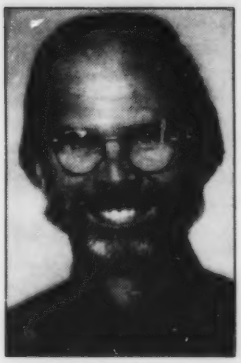
2000 Annual Report

June 29, 2001

Honourable Don Roberts
Minister responsible for Yukon Development Corporation
Government of Yukon
Box 2703
Whitehorse, Yukon Y1A 2C6

Dear Minister Roberts:

In accordance with Section 19(1) of the *Yukon Development Corporation Act*, I am pleased to provide you with the 2000 annual report for Yukon Development Corporation and its subsidiary, Yukon Energy Corporation.



Ray Wells, Chair

The past year was defined by our efforts to develop renewable energy infrastructure, address long-term rate stabilization, and build strong partnerships with governments, First Nations, communities, businesses and non-government organizations to meet mutual goals relating to energy supply and efficiency.

With the help of Yukon Energy Corporation, Yukon Development Corporation introduced the Renewable Power Sales Incentive Program, the Community Wind Resource Assessment Program and initiated the House Calls Energy Efficiency Program delivered by the Yukon Conservation Society. These achievements were complemented by an agreement reached with Natural Resources Canada to establish the Energy Solutions Centre. Implementation of the Green Power Initiative started and a new commercial wind turbine was installed on Haeckel Hill near Whitehorse.

The technical and financial feasibility of the Mayo-Dawson City transmission line was finalized enabling the project to receive board and government approval. The project construction was tendered while a benefits and strategic investment agreement was signed with the First Nation of Nacho Nyak Dun and the Tr'ondëk Hwëch'in First Nation. The transmission line is the largest capital initiative ever undertaken by Yukon Energy Corporation (YEC) and will provide significant long-term benefits to electricity consumers. YEC also received a 25-year renewal of its water licence for the Mayo hydro facility in 2000.

Despite the continuing loss of revenue from industrial and other sales, Yukon Energy Corporation managed to avoid a General Rate Application to the Yukon Utilities Board for the fourth consecutive year by adopting rigorous cost control measures. The utility also continued to work with its parent company to implement a long-term strategy for electrical rate predictability in anticipation of the scheduled end of the Rate Stabilization Fund in 2002.

Respectfully submitted,

Ray Wells, Chair
Yukon Development Corporation

YUKON DEVELOPMENT CORPORATION CORPORATE PROFILE

Yukon Development Corporation is a crown corporation created in 1986 by the *Yukon Development Corporation Act.* It is governed by a board of directors appointed by the Yukon government and has a legislative mandate to participate with the private sector in the economic development of the Yukon. In particular, the Act mandates the corporation to:

- develop and promote the development of Yukon resources on an economic and efficient basis;
- promote employment and business opportunities for Yukon residents;
- assure a continuing and adequate supply of energy in the Yukon in a manner consistent with sustainable development; and
- carry out development policy directives issued to it by Yukon cabinet.

The corporation currently maintains only one investment (Department of Education Building) made within the full scope of its statutory mandate.

In 1993, a government Order-in-Council restricted the corporation's role to energy-related activities designed to promote the economic development of the Yukon. In particular, the corporation:

- assures a continuing and adequate supply of energy in the Yukon in a manner consistent with sustainable development;
- alleviates the effects of any energy shortage that may occur in the Yukon; and
- promotes the establishment, development and operation within the Yukon of industries or undertakings that are by their nature energy-dependent, through the provision of cost-effective energy or energy-related infrastructure.

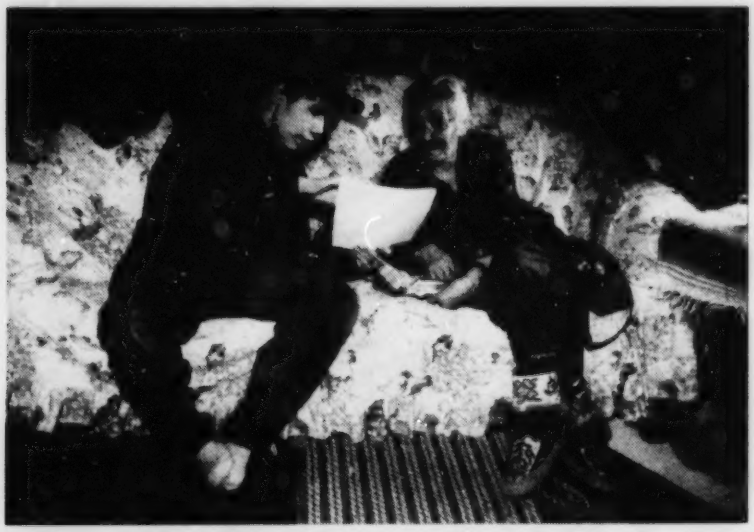
The corporation has four primary functions. It acts as sole shareholder in the subsidiary Yukon Energy Corporation, invests in energy infrastructure planning and development, conducts research and development, and designs, delivers and coordinates energy programs and services. Programs and services include initiatives like energy efficiency, green power, rate stabilization, and rural electrification for residential and business consumers.

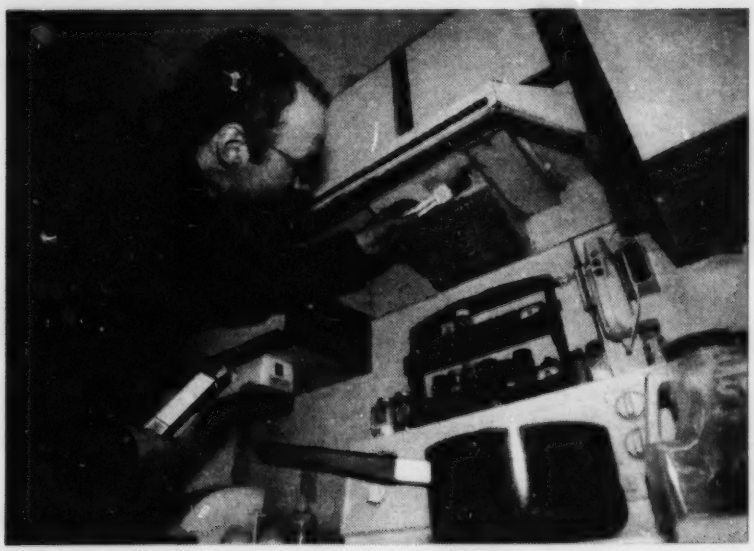
CEMPsational ENERGY COST SAVINGS

The Commercial Energy Management Program (CEMP) helps businesses, First Nations and municipalities save money and reduce energy use through energy audits and financial grants for equipment and lighting upgrades. It is delivered by the Energy Solutions Centre through a contractual arrangement with Yukon Development Corporation.

Since the program's parameters were expanded in the spring of 2000, energy audits increased from 8 to 33 while applications rose from 11 to 49.

The House Calls Efficiency Program reached almost 1,500 homes in 18 communities. It is estimated that the average annual savings for each participating household is $215.





THE YEAR IN REVIEW

HIGHLIGHTS

Energy efficiency initiatives

Yukon Development Corporation launched a new and improved Commercial Energy Management Program along with a training and certification program for commercial energy auditors in cooperation with Yukon Housing Corporation.

The Renewable Power Sales Incentive Program was established through an operating agreement with Yukon Energy Corporation to sell discounted, surplus hydroelectricity to commercial and government customers for heating purposes. The program will reduce energy costs for business and government facilities, increase revenue to Yukon Energy Corporation and benefit the environment by displacing fossil fuels.

The corporation expanded the House Calls pilot project to a full-scale program for 2000 homes, primarily in rural communities dependent on diesel-generated electricity. It was delivered by the Yukon Conservation Society with funding from Natural Resources Canada and the support of Yukon Energy Corporation and The Yukon Electrical Company Ltd. Program technicians installed residential energy-saving products and provided consumers with practical advice on other conservation measures.

The corporation secured financial and resource support from Natural Resources Canada to establish the Energy Solutions Centre as a business subsidiary of Yukon Development Corporation. The centre will provide technical services, help commercial, residential and government clients implement efficiency and renewable energy cost-saving solutions, support energy-related training and development, and conduct public awareness about energy use and climate change.

Energy infrastructure planning and investment

The minister responsible and the board of Yukon Development Corporation gave final approval for Yukon Energy Corporation to construct a transmission line from the Mayo hydro facility to Dawson City. A tender was issued in the fall. The project will use surplus, renewable electricity to displace diesel-generated power in Dawson City and eliminate 40 per cent of fossil fuel electricity in the territory.

The board also approved flexible financing and a $4 million, non-repayable contribution to the project to offset the capital costs. This will ensure that electricity rates are not affected and will accelerate the system-wide savings from reduced diesel-generated power.

As part of the House Calls Energy Efficiency Program, consumers received practical information on energy-saving products and techniques, as well as the installation of a hot water tank wrap, a low-flow showerhead and a compact fluorescent light bulb.

Finally, Yukon Development Corporation re-invested its remaining dividend in long-term financing for Yukon Energy Corporation with its requirement to maintain a 60:40 debt to equity relationship with its subsidiary.

First Nation relations

The corporation signed a benefits agreement in October with the First Nation of Nacho Nyak Dun and Tr'ondëk Hwëch'in First Nation to facilitate the construction of the Mayo-Dawson City transmission line.

The agreement provides the First Nations with the prospect of deriving business and employment opportunities, as well as purchasing an investment option of up to 49 per cent of the project, consistent with the economic provisions of the land claim settlements.

Governance

The corporation signed protocols with the government and its subsidiary, Yukon Energy Corporation, early in the year to clarify the relationship and accountability of each party. In November, the government announced plans for further improvements by amending the *Yukon Development Corporation Act.*

KNOCK, KNOCK – HOUSE CALLS!

Although the full analysis has not yet been completed, the preliminary results from the House Calls Energy Efficiency Program indicate that it was an outstanding economic and environmental success. The total energy savings on electricity bills is forecast to be $320,000, with the average saving for participating households estimated at $215.63. Territorial-wide diesel-generated electricity was reduced by 7% annually, eliminating 1,845 tonnes of greenhouse gas emissions.

The substantive changes will require an annual appearance of the Yukon Development Corporation (YDC) chair and president before the legislature, development of a YDC corporate plan for government approval and review by elected members, and tabling of any Order-in-Councils to YDC in the legislature.

CEMPsational ENERGY COST SAVINGS

The Commercial Energy Management Program (CEMP) helps businesses, First Nations and municipalities save money and reduce energy use through energy audits and financial grants for equipment and lighting upgrades. It is delivered by the Energy Solutions Centre through a contractual arrangement with Yukon Development Corporation.

Since the program's parameters were expanded in the spring of 2000, energy audits increased from 8 to 33 while applications rose from 11 to 49.

The House Calls Efficiency Program reached almost 1,500 homes in 18 communities. It is estimated that the average annual savings for each participating household is $215.

THE YEAR IN REVIEW

HIGHLIGHTS

Energy efficiency initiatives

Yukon Development Corporation launched a new and improved Commercial Energy Management Program along with a training and certification program for commercial energy auditors in cooperation with Yukon Housing Corporation.

The Renewable Power Sales Incentive Program was established through an operating agreement with Yukon Energy Corporation to sell discounted, surplus hydroelectricity to commercial and government customers for heating purposes. The program will reduce energy costs for business and government facilities, increase revenue to Yukon Energy Corporation and benefit the environment by displacing fossil fuels.

The corporation expanded the House Calls pilot project to a full-scale program for 2000 homes, primarily in rural communities dependent on diesel-generated electricity. It was delivered by the Yukon Conservation Society with funding from Natural Resources Canada and the support of Yukon Energy Corporation and The Yukon Electrical Company Ltd. Program technicians installed residential energy-saving products and provided consumers with practical advice on other conservation measures.

The corporation secured financial and resource support from Natural Resources Canada to establish the Energy Solutions Centre as a business subsidiary of Yukon Development Corporation. The centre will provide technical services, help commercial, residential and government clients implement efficiency and renewable energy cost-saving solutions, support energy-related training and development, and conduct public awareness about energy use and climate change.

Energy infrastructure planning and investment

The minister responsible and the board of Yukon Development Corporation gave final approval for Yukon Energy Corporation to construct a transmission line from the Mayo hydro facility to Dawson City. A tender was issued in the fall. The project will use surplus, renewable electricity to displace diesel-generated power in Dawson City and eliminate 40 per cent of fossil fuel electricity in the territory.

The board also approved flexible financing and a $4 million, non-repayable contribution to the project to offset the capital costs. This will ensure that electricity rates are not affected and will accelerate the system-wide savings from reduced diesel-generated power.

Finally, Yukon Development Corporation re-invested its remaining dividend in long-term financing for Yukon Energy Corporation with its requirement to maintain a 60:40 debt to equity relationship with its subsidiary.

As part of the House Calls Energy Efficiency Program, consumers received practical information on energy-saving products and techniques, as well as the installation of a hot water tank wrap, a low-flow showerhead and a compact fluorescent light bulb.

First Nation relations

The corporation signed a benefits agreement in October with the First Nation of Nacho Nyak Dun and Tr'ondëk Hwëch'in First Nation to facilitate the construction of the Mayo-Dawson City transmission line.

The agreement provides the First Nations with the prospect of deriving business and employment opportunities, as well as purchasing an investment option of up to 49 per cent of the project, consistent with the economic provisions of the land claim settlements.

Governance

The corporation signed protocols with the government and its subsidiary, Yukon Energy Corporation, early in the year to clarify the relationship and accountability of each party. In November, the government announced plans for further improvements by amending the *Yukon Development Corporation Act.*

The substantive changes will require an annual appearance of the Yukon Development Corporation (YDC) chair and president before the legislature, development of a YDC corporate plan for government approval and review by elected members, and tabling of any Order-in-Councils to YDC in the legislature.

KNOCK, KNOCK – HOUSE CALLS!

Although the full analysis has not yet been completed, the preliminary results from the House Calls Energy Efficiency Program indicate that it was an outstanding economic and environmental success. The total energy savings on electricity bills is forecast to be $320,000, with the average saving for participating households estimated at $215.63. Territorial-wide diesel-generated electricity was reduced by 7% annually, eliminating 1,845 tonnes of greenhouse gas emissions.

At the official opening of the Energy Solutions Centre on March 19, 2001, (left) Minister of Natural Resources Canada, Ralph Goodale, and Premier Pat Duncan signed the Canada/Yukon energy co-operation agreement while (right) Minister responsible for Yukon Development Corporation, Don Roberts, signed a memorandum of understanding to target energy efficiency to the tourism sector.

Green power initiatives

Yukon Development Corporation launched the implementation strategy for the Green Power Initiative early in the year. It designed an Expression of Interest to gauge the local capacity to develop alternative energy sources and to determine the feasibility of potential projects.

In partnership with Yukon Energy Corporation and financial assistance from the Yukon government, a 660 kW Vestas wind turbine was installed on Haeckel Hill near Whitehorse. The turbine improves the territory's wind energy capacity by 440 per cent and has the potential to reduce diesel-generated electricity on the Whitehorse-Aishihik-Faro grid to meet peak demand. It can power 130 homes a year, which is equivalent to the electricity produced by 350,000 litres of diesel fuel.

TRAINING FOR ENERGY SUCCESS

The Commercial Energy Auditor Service was established in 2000 by Yukon Development Corporation, Yukon Energy Corporation and Yukon Housing Corporation to train and certify commercial energy auditors based on the Canadian Institute for Energy Training.

The courses support energy efficiency by improving technical skills and knowledge to help businesses, First Nations and municipalities improve building and community energy management. Since the start of the program, 12 people have certified as auditors.

Yukon Development Corporation also launched the Community Wind Resource Assessment Program to determine the potential for small and large-scale renewable energy applications and monitored five sites throughout the territory.

Rate Stabilization Fund

The Rate Stabilization Fund (RSF) subsidizes electricity bills for most non-government residential and general service customers (i.e. commercial and municipal) to a maximum of nine per cent above January 1997 rates, according to different winter and summer components.

The amount of RSF subsidies to these customer classes increased during 2000 due to a temporary rider (Rider F) imposed on electricity bills by the Yukon Utilities Board on December 1. The surcharge of about five per cent resulted from the increased cost of diesel-generated electricity because of rising world fuel prices.

YUKON TOPS THE COUNTRY

Through its energy efficiency and renewable energy programs, Yukon Development Corporation was pleased to contribute to the territory's recognition as a national leader in these areas.

The Canadian Energy Efficiency Alliance, an association of industry and non-government organizations, rated all provinces and territories in 2000 and awarded the Yukon an A- for these efforts, the highest grade it has ever issued. The Alliance noted that the territory's success "is based on [its] ability to build strong partnerships."

CANADIAN

Energy Efficiency Alliance

The corporation also continued to implement a strategy for long-term electrical rate stabilization in conjunction with its subsidiary, Yukon Energy Corporation, to reduce the gap between the actual and subsidized costs.

RATE STABILIZATION FUND OPERATIONS

The Rate Stabilization Fund was created in November 1998 through an Order-in-Council pursuant to the *Yukon Development Corporation Act*. It is funded by a $10 million contribution from the Yukon government to Yukon Development Corporation and is scheduled to end March 31, 2002.

The RSF subsidizes all residential electricity bills to a maximum of 9 per cent above January 1997 rates for the first 1000 kWh/month in the winter. In summer, the subsidy decreases on a sliding scale beginning at 1000 kWh until it is eliminated at 1500 kWh/month.

General service electricity bills are subsidized for the first 2000 kWh in winter. In summer, the subsidy starts to reduce on a sliding scale at 2000 kWh/month and ends at 3000 kWh/month.

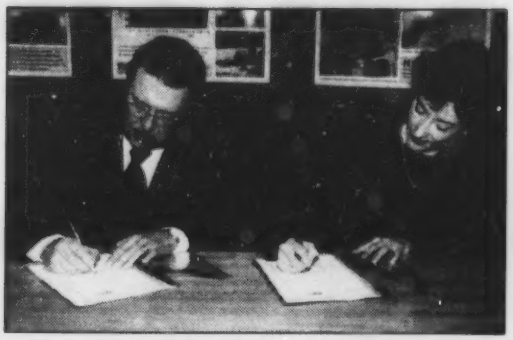
In 2000, $2,988,226 was spent on the RSF throughout the territory. The number of non-government residential customers receiving the subsidy ranged from a low of 11,171 during the summer months to a winter high of 12,209. The number of commercial consumers that benefited was from 1,635 to 2,088 while similar figures for municipal facilities were a low of 147 and a high of 208.

The balance of the Rate Stabilization Fund on December 31, 2000, including investment income, was estimated to be $6,054,000.

SHAREHOLDER DIRECTION

The Government of Yukon appointed a director to the board of Yukon Development Corporation during 2000 by issuing the following Order-in-Council pursuant to section 7(2) of the *Yukon Development Corporation Act*.

- Order-in-Council 2000/188 re-appoints Ed Chambers as a director for a term ending February 21, 2001.



At the official opening of the Energy Solutions Centre on March 19, 2001, (left) Minister of Natural Resources Canada, Ralph Goodale, and Premier Pat Duncan signed the Canada/Yukon energy co-operation agreement while (right) Minister responsible for Yukon Development Corporation, Don Roberts, signed a memorandum of understanding to target energy efficiency to the tourism sector.

Green power initiatives

Yukon Development Corporation launched the implementation strategy for the Green Power Initiative early in the year. It designed an Expression of Interest to gauge the local capacity to develop alternative energy sources and to determine the feasibility of potential projects.

In partnership with Yukon Energy Corporation and financial assistance from the Yukon government, a 660 kW Vestas wind turbine was installed on Haeckel Hill near Whitehorse. The turbine improves the territory's wind energy capacity by 440 per cent and has the potential to reduce diesel-generated electricity on the Whitehorse-Aishihik-Faro grid to meet peak demand. It can power 130 homes a year, which is equivalent to the electricity produced by 350,000 litres of diesel fuel.

TRAINING FOR ENERGY SUCCESS

The Commercial Energy Auditor Service was established in 2000 by Yukon Development Corporation, Yukon Energy Corporation and Yukon Housing Corporation to train and certify commercial energy auditors based on the Canadian Institute for Energy Training.

The courses support energy efficiency by improving technical skills and knowledge to help businesses, First Nations and municipalities improve building and community energy management. Since the start of the program, 12 people have certified as auditors.

Yukon Development Corporation also launched the Community Wind Resource Assessment Program to determine the potential for small and large-scale renewable energy applications and monitored five sites throughout the territory.

Rate Stabilization Fund

The Rate Stabilization Fund (RSF) subsidizes electricity bills for most non-government residential and general service customers (i.e. commercial and municipal) to a maximum of nine per cent above January 1997 rates, according to different winter and summer components.

The amount of RSF subsidies to these customer classes increased during 2000 due to a temporary rider (Rider F) imposed on electricity bills by the Yukon Utilities Board on December 1. The surcharge of about five per cent resulted from the increased cost of diesel-generated electricity because of rising world fuel prices.

YUKON TOPS THE COUNTRY

Through its energy efficiency and renewable energy programs, Yukon Development Corporation was pleased to contribute to the territory's recognition as a national leader in these areas.

The Canadian Energy Efficiency Alliance, an association of industry and non-government organizations, rated all provinces and territories in 2000 and awarded the Yukon an A- for these efforts, the highest grade it has ever issued. The Alliance noted that the territory's success "is based on [its] ability to build strong partnerships."

CANADIAN
Energy Efficiency Alliance

The corporation also continued to implement a strategy for long-term electrical rate stabilization in conjunction with its subsidiary, Yukon Energy Corporation, to reduce the gap between the actual and subsidized costs.

RATE STABILIZATION FUND OPERATIONS

The Rate Stabilization Fund was created in November 1998 through an Order-in-Council pursuant to the ***Yukon Development Corporation Act.*** It is funded by a $10 million contribution from the Yukon government to Yukon Development Corporation and is scheduled to end March 31, 2002.

The RSF subsidizes all residential electricity bills to a maximum of 9 per cent above January 1997 rates for the first 1000 kWh/month in the winter. In summer, the subsidy decreases on a sliding scale beginning at 1000 kWh until it is eliminated at 1500 kWh/month.

General service electricity bills are subsidized for the first 2000 kWh in winter. In summer, the subsidy starts to reduce on a sliding scale at 2000 kWh/month and ends at 3000 kWh/month.

In 2000, $2,988,226 was spent on the RSF throughout the territory. The number of non-government residential customers receiving the subsidy ranged from a low of 11,171 during the summer months to a winter high of 12,209. The number of commercial consumers that benefited was from 1,635 to 2,088 while similar figures for municipal facilities were a low of 147 and a high of 208.

The balance of the Rate Stabilization Fund on December 31, 2000, including investment income, was estimated to be $6,054,000.

SHAREHOLDER DIRECTION

The Government of Yukon appointed a director to the board of Yukon Development Corporation during 2000 by issuing the following Order-in-Council pursuant to section 7(2) of the ***Yukon Development Corporation Act.***

- Order-in-Council 2000/188 re-appoints Ed Chambers as a director for a term ending February 21, 2001.

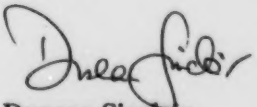
MANAGEMENT REPORT

The consolidated financial statements and all other financial information relating to Yukon Development Corporation contained in this annual report are the responsibility of management. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the corporation operates. The preparation of financial statements necessarily involves the use of estimates and approximations, which have been made using careful judgement. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the consolidated financial statements. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The financial statements have been examined by an external auditor. The external auditor's responsibility is to express an opinion on whether the consolidated financial statements, in all material respects, fairly present the corporation's financial position, results of operations and changes in financial position in accordance with generally accepted accounting principles. In addition, the external auditor reports on whether proper books of account have been kept by the corporation, the consolidated financial statements are in agreement therewith, and transactions, in all significant respects, are in accordance with the ***Financial Administration Act*** (Yukon) as applicable, the ***Yukon Development Corporation Act*** and the bylaws of the corporation. The Auditor's Report, which follows, outlines the scope of this examination and the auditor's opinion.

The corporation's board of directors, through its Audit and Finance Committee, oversees management's responsibilities for financial reporting. The Audit and Finance Committee meets with management and the independent external auditor to discuss auditing and financial matters, to gain assurances that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditor has full and free access to the Audit and Financial Committee, with and without the presence of management.



Duncan Sinclair
President and Chief Executive Officer

August 1 , 2001

AUDITOR'S REPORT

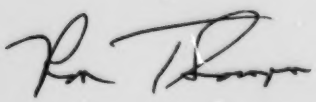
The Honourable Don Roberts
MLA Minister Responsible for Yukon Development Corporation

I have audited the consolidated balance sheet of Yukon Development Corporation as of December 31, 2000 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated statements present fairly, in all material respects, the financial position of the corporation as of December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada. As required by the *Yukon Development Corporation Act*, I report that, in my opinion, these principles have been applied, except for the change in accounting for pension plans as explained in note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the corporation and by its wholly-owned subsidiary and the consolidated financial statements are in agreement therewith and the transactions of the corporation that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Yukon Development Corporation Act* and the bylaws of the corporation.



Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
August 1, 2001

CONSOLIDATED BALANCE SHEET

as of December 31, 2000 (in thousands of dollars)

	2000	1999 (restated)
ASSETS		
Current assets		
Cash and cash equivalents (note 5)	$24,234	$19,232
Accounts receivable (note 6)	10,721	9,857
Inventories	2,154	811
Prepaid expenses	379	347
Current portion of investment (note 7)	224	198
	37,713	**30,445**
Long-term receivables		
Long-term receivables (note 8)	983	5,143
Mortgages receivable	137	47
	1,120	**5,190**
Reserve for uninsured losses (note 16)	**316**	**746**
Diesel Contingency Fund (note 8)	**(61)**	**(57)**
Rate Stabilization Fund (note 10)	**6,054**	**8,595**
Capital assets (note 11)	**124,960**	**120,041**
Deferred charges (note 12)	**4,168**	**3,711**
Investments (note 7)	**4,336**	**4,561**
	178,606	**173,232**
LIABILITIES		
Current liabilities		
Accounts payable	2,461	2,989
Current portion of long-term debt (note 13)	910	830
Interest payable	15	16
Regulatory liabilities (note 14)	2,086	465
	5,472	**4,300**
Deferred revenue (note 15)	**15,428**	**12,347**
Reserve for future removal and site restoration costs	**4,644**	**4,069**
Diesel Contingency Fund (note 9)	**(61)**	**(57)**
Rate Stabilization Fund (note 10)	**6,054**	**8,595**
Long-term debt (note 13)	**44,322**	**45,189**
	75,859	**74,443**
EQUITY		
Contributed capital	41,501	41,501
Retained earnings	61,246	57,288
	102,747	**98,789**
	$178,606	**$173,232**

The accompanying notes are an integral part of the financial statements.
Contingencies and commitments (note 20)

Approved by the Board:

Chair

Director

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended December 31, 2000 (in thousands of dollars)

	2000	1999 (restated)
Revenue		
Sales of power	$22,386	$23,181
Other	1,339	139
	23,725	**23,320**
Operating expenses		
Operations and maintenance	5,413	5,614
Administration	9,078	5,006
Amortization of capital assets	4,738	4,295
Amortization of deferred charges	397	792
	19,626	**15,707**
Income from operations	**4,099**	**7,613**
Other expenses (income)		
Provision for uninsured losses	50	50
Finance charges, net (note 17)	(111)	451
Transition costs	–	(7)
Other expenses (note 18)	202	248
	141	**742**
Net income	**3,958**	**6,871**
Retained earnings, beginning of year		
As previously reported	57,288	49,937
Correction of accounting error (note 4)	–	480
As restated	**57,288**	**50,417**
Retained earnings, end of year	**$61,246**	**$57,288**

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 2000 (in thousands of dollars)

	2000	1999 (restated)
Cash provided by (used in) operating activities		
Net income	**$3,958**	**$6,871**
Items not resulting in a cash payment		
Amortization of capital assets	4,738	4,295
Amortization of deferred charges	397	792
Increase in reserve for future removal and site restoration	575	537
	5,710	**5,624**
Changes in non-cash components of working capital		
(Increase) in accounts receivable	(864)	(525)
(Increase) in inventories	(1,343)	(106)
(Increase) in prepaid expenses	(32)	(66)
(Decrease) increase in accounts payable	(529)	1,517
Decrease in interest payable	(1)	–
Increase in regulatory liabilities	1,621	171
	(1,148)	**991**
Cash provided by operating activities	**8,520**	**13,486**
Cash provided by (used in) investing activities		
Additions to capital assets	(9,656)	(12,321)
Additions in deferred charges	(854)	(753)
Increase (decrease) in reserve for uninsured losses	430	(125)
Principal payments received on investments	198	175
Cash used in investing activities	**(9,882)**	**(13,024)**
Cash provided by (used in) financing activities		
Repayments of long-term debt	(787)	(753)
Decrease (increase) in long-term receivables	4,070	999
Increase in deferred revenue	3,081	12,706
Cash provided by financing activities	**6,364**	**12,952**
Net increase in cash during the year	**5,002**	**13,414**
Cash beginning of year	**19,232**	**5,818**
Cash end of year	**$24,234**	**$19,232**

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000 (tabular amounts in thousands of dollars)

1. Authority, objectives and operations

Yukon Development Corporation ("the corporation") was originally established under the *Yukon Development Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission (NCPC) in the Yukon.

In 1993, the corporation's mandate was changed to restrict its new initiatives to energy-related activities designed to promote the economic development of the Yukon.

The corporation's wholly-owned subsidiaries, Energy Solutions Centre Inc. and Yukon Energy Corporation, were incorporated under the Yukon *Business Corporations Act*. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon and is regulated by the Yukon Utilities Board. The mandate of Energy Solutions Centre Inc. is to engage Yukoners in the challenge and potential of energy efficiency and green power as solutions to climate change by mobilizing individuals, businesses, communities and First Nations to implement projects that will reduce greenhouse gas emissions in the Yukon.

Pursuant to Order-in-Council 1990/76, Yukon Energy Corporation is exempt from the *Financial Administration Act* (Yukon).

2. Significant accounting policies

Financial statement presentation

The consolidated financial statements of Yukon Development Corporation have been prepared by management and conform to accounting principles generally accepted in Canada. The consolidated financial statements include the accounts of Yukon Development Corporation and its wholly-owned subsidiaries, Energy Solutions Centre Inc. and Yukon Energy Corporation and take into account generally accepted accounting methods and practices of regulatory bodies. All significant inter-company transactions and balances have been eliminated on consolidation. The regulatory accounting practices adopted by Yukon Energy Corporation may differ from the accounting practices otherwise applied in unregulated enterprises. In particular, the timing of Yukon Energy Corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using generally accepted accounting principles. A description of significant accounting policies follows.

Water regulation

The Yukon Territory Water Board decides if and for how long Yukon Energy Corporation will have a water licence for the purposes of operating dams for hydro generation. The licences will also indicate terms and conditions for the operation of dams. The costs incurred to secure a licence are amortized over the term of the existing licence plus the expected term of the renewed licence.

Rate regulation

The corporation's subsidiary, Yukon Energy Corporation, is regulated by the Yukon Territory Water Board pursuant to the *Yukon Waters Act* (Canada) and the Yukon Utilities Board

pursuant to the *Public Utilities Act* (Yukon). The regulatory process begins when Yukon Energy Corporation makes a General Rate Application for its proposed electricity rate changes over the next one or two years. The Yukon Utilities Board (YUB) must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the *Public Utilities Act* and any directives issued by the Yukon government through Orders-in-Council.

The YUB follows a two-stage decision process. In the first stage, the total costs that the utility will incur by making electricity available to its customers over the immediate future are approved. The approval of these costs determines the total revenues the utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and
- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by a cost-of-service study which allocates utility costs to the various customer classes on the basis of appropriate costing principles. The determination of rates is also affected by Orders-in-Council issued by the Yukon cabinet, which give specific government direction to the board.

Normally, Yukon Energy Corporation applies for rates in advance of the applicable years. A hearing takes place and rates are approved as final. Interim hearings and interim rates may be used to deal with unforeseen circumstances.

Capital assets

Capital assets are stated at cost, which includes materials, direct and indirect labour, an appropriate allocation of administrative overhead and finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 35 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Financial Information System	5 to 10 years
Transportation	13 to 14 years
Other equipment	5 to 15 years

Yukon Energy Corporation capitalizes development studies and an allowance for funds used during construction (AFUDC) at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to meet customers' specific requirements. These contributions are amortized to income on the same basis as, and offset the amortization charge of, the assets to which they relate. Capital assets are disclosed net of unamortized contributions. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Inventories

Inventories which consist of material, supplies and diesel fuel are recorded at the lower of average cost or replacement value.

Deferred charges

Deferred charges are recorded at cost, less accumulated amortization.

All demand-side management expenditures related to administration expenses and information programs are expensed as incurred, while costs related to specific incentive programs are deferred and amortized to earnings on a straight-line basis over five years.

Planning and study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are amortized to earnings over five years starting in the year that the project is abandoned.

Costs related to water licence renewals are deferred and amortized to earnings over the term of the existing licence plus the expected term of the renewed licence, which is generally a long-term arrangement of 25 years.

Regulatory hearing costs are deferred and amortized to earnings over the period to which the hearing relates.

General equipment overhaul expenditures in excess of $250,000 are deferred and amortized to earnings on a straight-line basis over five years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Investments

The corporation's investments are recorded at the lower of cost or net realizable value.

Reserve for uninsured losses

Yukon Energy Corporation maintains a reserve for uninsured losses. An appropriation to the reserve of $50,000 is made annually as a charge to expenses. Uninsured losses are charged directly against the reserve.

Reserve for future removal and site restoration cost

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset, net of expected recoveries. These costs are amortized over the estimated useful life of the asset on a straight-line basis.

Revenue recognition

Revenue from the sale of power is recorded when electricity is delivered.

Measurement uncertainty

The preparation of financial statements in accordance with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, the reserve for future removal and site restoration costs and other long-term receivables. Actual results could differ from these estimates.

3. Change in accounting policy - pension plan

Accounting principles generally accepted in Canada require Yukon Energy Corporation to recognize the cost of retirement benefits over the periods in which employees render services to Yukon Energy Corporation in return for the benefits. This change has been applied on a prospective basis without restatement of the results of individual prior periods. As a result of the change, Yukon Energy Corporation recorded an unamortized transitional asset of $287,500 as of December 31, 2000 and the corresponding amortization of this asset reduced pension expense by $16,900.

4. Correction of an error in prior period financial statements

In 1996, there was an accounting error made in relation to a contribution for an office building upgrade made by the corporation to its subsidiary, Yukon Energy Corporation. Administration expense was overstated by $480,000 and Capital Assets were understated by $480,000. In 1997, the asset related to this contribution was destroyed by fire. As the insurance proceeds exceeded the net book value less the contribution, a deferred gain was recognized with respect to these assets. The effect of the correction of the error in the current year's financial statements is to increase beginning-of-year retained earnings by $480,000 and decrease deferred revenue by $480,000. The correction of this error has been accounted for retroactively and accordingly, the financial statements of prior periods presented for comparative purposes have been restated to reflect these adjustments.

5. Cash and cash equivalents

	2000	1999
Bank balance	$10,172	$3,706
Short-term investments	14,062	15,526
	$24,234	**$19,232**

Short-term investments are monies invested in a pooled money market fund. The fixed term securities held in the fund have an average maturity less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2000 was 6.03% (1999 – 5.22%).

Yukon Energy Corporation also has, if needed, an operating demand line of credit with its banker that allows the corporation to borrow up to $10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon government.

6. Accounts receivable

	2000	1999
Fire insurance claim (note 23)	$4,787	$3,121
Rate adjustment receivable	2,103	2,960
Retail energy sales	1,940	1,707
Wholesale energy sales	1,664	1,618
Other	227	51
	$10,721	**$9,857**

Accounts receivable includes $2,203,000 (1999 – $2,143,000) due from The Yukon Electrical Company Limited. The corporation's sales to The Yukon Electrical Company Limited were approximately $15,020,000 (1999 – $15,258,000) but due to the wholesale nature of the sales, the corporation is not economically dependent on it.

7. Investments

The corporation's investments are summarized as follows:

	2000	1999
Direct financing lease	$4,560	$4,759
Less: current portion	224	198
	$4,336	**$4,561**

In 1990, the corporation acquired the building known as Old Yukon College from the Yukon government for a nominal fee. The building was renovated and is being leased back to the government for a period of 20 years. At the end of the lease term (in 2011), the government may purchase the building from the corporation for a nominal fee. Interest from the lease is recognized as finance income in note 17.

8. Long-term receivables

	2000	1999
Anvil Range Mine Rider J cost-of-service shortfall	$925	$1,850
Anvil Range Mine Rider G balance	58	116
Anvil Range Mine bad debt	–	3,177
	$983	**$5,143**

Yukon Energy Corporation is exposed to credit risks in the event of non-performance by counterparties to financial instruments. Operations of the Anvil Range Mine in Faro ceased in January 1998 and the Anvil Range Mining Corporation applied for court protection from its creditors. Yukon Energy Corporation requested in the April 22, 1998 rate application that the Anvil Range bad debt balance be recovered from its customers over five years. This application was denied by the Yukon Utilities Board in Board Order 1998-5. Yukon Energy Corporation appealed this decision to the Court of Appeal which dismissed it on April 27, 2001.

Accordingly, Yukon Energy Corporation has written down the Anvil Range Mine bad debt balance to its net realizable value (NRV). This NRV was estimated by Yukon Energy Corporation's legal counsel based on a review of the Plan of Arrangement resulting from Anvil Range Mine bankruptcy proceedings. The estimated NRV of this debt is $633,000 and is included in Yukon Energy Corporation's accounts receivable balance at December 31, 2000. The remaining Anvil Mine Range bad debt was written off to Administration expenses during fiscal year 2000.

In accordance with Board Order 1998-5, Yukon Energy Corporation recorded the cost-of-service shortfalls as a long-term receivable of $1,850,000 for 1999 and $925,000 for 2000, and recorded Rider G balance of $116,000 for 1999 and $58,000 for 2000, related to the closure of the Anvil Range Mine. The Yukon Utilities Board has ordered that this long-term receivable be included in the rate base of Yukon Energy Corporation. The board also ordered that the amount to be included in Yukon Energy Corporation's rate base be reduced by $925,000 per year commencing in 1998 for the cost-of-service shortfall and $58,000 per year for Rider G.

9. Diesel Contingency Fund

The Diesel Contingency Fund was established through Board Order 1996-6 by the Yukon Utilities Board. The fund is administered by Yukon Energy Corporation on behalf of the Yukon Utilities Board and, as such, is recorded as a trust asset and a trust liability.

	2000	1999
Opening balance	$(57)	$2,236
Interest	(4)	13
Hydro availability buildup (drawdown)	–	(1,132)
Yukon Utilities Board Orders 1998-5 and 1997-7	–	(1,174)
Closing balance	**$(61)**	**$(57)**

As part of the review of the corporation's filing on the impacts of the Whitehorse Rapids Generating Facility fire insurance settlement, the Yukon Utilities Board may adjust the balance in the fund.

10. Rate Stabilization Fund

The $10 million Rate Stabilization Fund was created in 1998 by the Yukon government to support stable and affordable electrical rates to March 31, 2002. The goal of the Rate Stabilization Fund is to protect all non-government residential, general service (commercial) and municipal ratepayers by minimizing the impact of rate increases over this period. The Yukon government has announced a further $12 million will be added to the fund, extending the life of the program to 2005 (see commitment note 20b).

	2000	1999
Opening balance	$8,595	$10,000
Payments	(2,954)	(1,830)
Interest	413	425
Closing balance	**$6,054**	**$8,595**

11. Capital assets

			2000	1999
	Cost	Accumulated amortization	Net book value	Net book value
Hydro-electric and diesel plants	$121,462	$29,812	$91,650	$91,177
Transmission	18,768	5,758	13,010	13,175
Distribution	9,954	3,035	6,919	6,154
Buildings and other equipment	10,663	2,386	8,277	7,092
Financial Information System	1,311	158	1,153	720
Transportation	852	118	734	680
Land	110	–	110	110
Construction-in-progress	4,782	–	4,782	2,563
	167,902	**41,267**	**126,635**	**121,671**
Less: Contributions for plant extensions	2,187	512	1,675	1,630
	$165,715	**$40,755**	**$124,960**	**$120,041**

The above amounts exclude the costs of assets which were damaged and destroyed in the October 30, 1997 fire at the Whitehorse Rapids Generating Facility. The costs of the assets that were used to reconstruct the facility equaled $13,395,000 and are included in the capital asset costs above. As an offset, an amount equal to $11,604,000 representing insurance proceeds received to cover the cost of reconstruction is accounted for as a deferred revenue (see notes 15 and 23). The difference, equal to $1,791,000 (1999 – $1,991,000), represents the value of betterments which improved the facility beyond the value replaced by the insurance proceeds.

12. Deferred charges

	Cost	Accumulated amortization	2000 Net book value	1999 Net book value
Relicencing	$4,095	$657	$3,438	$3,429
Feasibility studies	417	179	238	98
Generating equipment overhauls	834	526	308	474
Deferred diesel fuel price adjustment	111	–	111	(290)
Other	91	18	73	–
	$5,548	**$1,380**	**$4,168**	**$3,711**

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

Yukon Energy Corporation is authorized by Order-In-Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel without the requirement for specific application to and approval from the Yukon Utilities Board. Fluctuations in diesel fuel expense are deferred and recovered or refunded over designated future periods prescribed by the YUB through revised rates charged to customers.

13. Long-term debt

The corporation's long-term debt is summarized as follows:

	2000	1999
Government of Canada		
$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of $1,000,000 interest and principle, with the balance due January 1, 2028.	$29,546	$29,800
Great West Life		
$5,750,000 mortgage bearing interest at 11.5%, repayable in monthly installments of $60,000 interest and principle with the final payment due July 2011.	4,557	4,756
TD Canada Trust		
$12,400,000 term note bearing interest at 7.94% payable in monthly installments of $102,000 interest and principle, with the balance of $67,000 due October 31, 2016. The note is guaranteed by the Yukon government.	11,130	11,463
	45,233	46,019
Less: Current portion	910	830
	$44,323	**$45,189**

Government of Canada note

The proceeds of the Government of Canada flexible term note were part of the consideration used in 1987 to acquire the assets of Northern Canada Power Commission. The note is secured by a mortgage against the acquired assets.

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts.

Mortgage payable

The mortgage is secured by land and buildings described in note 11.

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2001	$910
2002	922
2003	1,002
2004	1,089
2005	1,182
Thereafter	40,128
	$45,233

Fair value

Fair value of $43,579,000 (1999 – $45,199,000) for all long-term debt was estimated using discounted cash-flow analysis based on an estimate of Yukon Energy Corporation's current borrowing rate for similar borrowing arrangements.

14. Regulatory liabilities

	2000	1999
Insurance proceeds held on behalf of ratepayers	$1,488	$ –
Anvil Range Mine dewater revenue	598	465
	$2,086	**$465**

The insurance proceeds held on behalf of ratepayers represents the residual balance of insurance proceeds after allocation against all known fire-related reconstruction and operation and maintenance costs. The proceeds realized from the corporation's insurance policy were as follows:

Property	
• Indemnity for reconstruction costs of destroyed facility	$10,707
Generating extra expense use and occupancy insurance valued form	
• Extra expense indemnity for reconstruction costs of the facilities (required to expedite repair and reconstruction) and related increased operations and maintenance expenses	1,042
• Indemnity for additional costs of diesel generation and related costs arising from the fire	1,095
• Indemnity for per diem amounts for interruption of use of Whitehorse Hydro Generating Facility	1,674
	$14,518

After reducing the balance by $29,000 for costs incurred in 2001, the proceeds from insurance were used to offset: total reconstruction costs of $11,604,000 (an equal amount has been placed in the "Deferred gain on fire insurance proceeds - capital assets" (see note 15)); actual operations and maintenance costs of $894,000 related to the fire (recorded as administration expense with an offsetting amount recognized as other revenue on the Statement of Income and Retained Earnings for the year ended December 31, 2000); and $503,000 of costs related to the fire that were charged to the reserve for uninsured losses (see note 16), leaving a balance of $1,488,000. As part of this report, Yukon Energy Corporation will outline the impact to the Diesel Contingency Fund as it may affect the ultimate allocation of insurance proceeds.

The corporation is required to use the balance of the insurance proceeds for the benefit of ratepayers. The allocation of this amount will be subject to a decision by the Yukon Utilities Board when the corporation files its report to the YUB related to the fire (see additional explanations in note 23).

Anvil Range Mine dewater revenue derives from Rate Schedule 34 customers, of which the Anvil Range Mine is the only customer. As directed by the Yukon Utilities Board in Board Order 1998-5, the corporation is deferring revenues collected from this rate class until application to the benefit of customers is directed by the YUB.

15. Deferred revenues

	2000	1999
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments $2,550,000 (1999 – $2,981,000))	$9,054	$6,075
Sustainable energy development funds	6,374	6,272
	$15,428	**$12,347**

The Yukon government provided $6,000,000 for sustainable energy for Yukon people. Two 10-year programs were established totalling $4,000,000 for green power as well as energy conservation and efficiency. Two million dollars was provided for a wind turbine that was installed in 2000. Interest on these amounts is also recorded as deferred revenue.

The deferred gain represents the gain resulting from insurance proceeds received in relation to the reconstruction of facilities ($11,604,000; see notes 11 and 14) in excess of net book value of assets destroyed by fire. The gain is being amortized to income at the same rate that the replacement assets are being amortized, as approved by YUB Order 2000-3 (see note 11). Now that the fire insurance claim is final, the corporation is required to file a report with the Yukon Utilities Board on the fire-related impact to the corporation. At that time, it will seek approval to include both the reconstruction costs of the facility and the deferred gain into the rate base in the manner set out in YUB Order 2000-3.

16. Reserve for uninsured losses

	2000	1999
Opening balance	$746	$621
Expense	(50)	(50)
Reimbursement of fire-related costs	(503)	–
Losses incurred		
Asset replacement	3	67
Line failures	–	33
Wind storm	84	75
Whitehorse Rapids generation interruption	36	–
Closing balance	**$316**	**$746**

Yukon Energy Corporation's target balance for the reserve for uninsured losses is based on its past experience. Yukon Energy Corporation will apply to the Yukon Utilities Board for approval to increase the reserve as part of the next General Rate Application. All adjustments to the reserve are subject to YUB approval.

As a result of the fire at the Whitehorse Rapids Generating Facility, approximately $503,000 was charged to the reserve during 1997 and 1998 ($100,000 for the deductible under the corporation's insurance policy and $403,000 for fire-related diesel generation not specifically covered by the corporation's insurance policy). Given that the company was able to negotiate a "gain on insurance proceeds" under its insurance policy, the reserve has been reimbursed for these fire-related costs. However, all adjustments to the reserve are subject to YUB approval and the corporation will seek approval for these adjustments when it reports to the board on the fire impacts.

17. Finance charges, net

	2000	1999
Interest on long-term debt	$1,808	$1,869
Other interest	–	52
Interest income	(1,210)	(587)
Finance income	(586)	(609)
Allowance for funds used during construction (AFUDC)	(123)	(274)
	$(111)	**$451**

18. Other expenses

	2000	1999
Energy efficiency	$119	$9
First Nations community and environment initiatives	56	179
Research and development	17	9
Renewable energy	10	51
	$202	**$248**

19. Pension costs and obligations

Yukon Energy Corporation has a defined benefit pension plan, which provides for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees. Pension costs include the current cost-of-service and amortization of past service benefits and plan enhancements, and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members, which is currently 18 years.

Yukon Energy Corporation has contracted with external organizations to provide services of trustee, administrator, and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of December 31, 1997 by the consulting actuarial firm Aon Consulting Inc. The results of the December 31, 1997 valuation have been projected to December 31, 2000 in accordance with generally accepted actuarial standards. The actuarial valuation includes services rendered by members under the Yukon Energy Corporation Employees Pension Plan from January 1, 1999 to December 31, 2000, and service credits in respect of pre-1998 service transferred to the Yukon Energy Corporation Employees Pension Plan from the Canadian Utilities Employees Pension Plan under the Acknowledgement and Agreement between Yukon Energy Corporation and The Yukon Electrical Company Ltd., dated February 5, 1999.

The fair value of plan assets is based on market values as reported by Royal Trust as of December 31, 2000.

The following table sets out the assumptions and pension amounts as of December 31, 2000. Yukon Energy Corporation's employees have the option to belong to the corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). As of December 31, 2000, the corporation's defined pension plan had 41 members, and the RRSP plan had 12 members.

Pension benefits are based on:

- years of pensionable service,
- the average annual earnings during any 5 consecutive years of pensionable service where earnings are the highest, and
- the average of the year's maximum pensionable earnings (Canada Pension Plan) for the same 5-year period.

Annual cost of living increases to a maximum of 3% are provided to pensioners. The corporation contributes amounts as prescribed by an independent actuary.

Employees make basic and indexed contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings
- 5% of earnings in excess of year's maximum pensionable earnings

to a maximum of $2,500 per year.

Information about the corporation's defined benefit plan as of December 31, in aggregate, is as follows:

	2000	1999
Discount rate	7.00%	7.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Assumed rate of salary escalation	3.75%	3.75%
Expected average remaining service life of employees	18 years	18 years
Benefit obligation determined by actuarial valuation	$4,397	$3,298
Fair value of plan assets	4,262	3,615
Plan surplus (deficit)	(135)	317
Accrued benefit liability	(35)	(34)
Pension expense	202	222
Employer contributions	236	193
Employee contributions	87	85
Benefits paid	(8)	(35)

20. Contingencies and commitments

a) Mayo to Dawson transmission line contract

Subsequent to year end, the corporation entered into a contract for the construction of a transmission line from the Mayo hydro generation plant to the Dawson distribution system. The total cost of the contract is $22 million payable over the course of construction, which is estimated to be 19 months. The cost of the contract will be financed via a combination of debt and internally generated funds.

b) Rate Stabilization Fund

On October 17, 2001, the Yukon government announced the continuation of the Rate Stabilization Fund through a $12 million investment beginning in 2002. This investment is expected to sustain the fund until 2005. The investment will be funded, in part, by internally generated funds from the corporation.

21. Commodity price risk

Yukon Energy Corporation purchases fuel oil to generate electricity in a number of communities. To mitigate the risk of market price volatility, it purchased a number of fuel oil price hedges during 2000. These hedges are for risk mitigation only and are not held for trading purposes. During 2000, Yukon Energy Corporation recognized gains of $30,000. At

December 31, 2000, it held fuel oil price hedges on 1,590,000 litres of fuel oil at an average settlement price of $0.33/litre. These hedges will expire in June 2001.

22. Environmental liabilities

The corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The corporation conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the corporation, is considered probable and the costs can be reasonably estimated. To date, no such liabilities have been recorded in the corporation's accounts.

23. Subsequent events - fire insurance claim settlement

Subsequent to year end, Yukon Energy Corporation settled insurance claims related to a fire that occurred at the Whitehorse Rapids Generating Facility on October 30, 1997. The total proceeds from these claims are $14,489,000 and have been accounted for in the books of account as follows:

Reconstruction of capital assets	$11,604
Regulatory liabilities	1,488
Fire-related operations & maintenance expenses	894
Adjustment to reserve for uninsured losses	503
	$14,489

The reconstruction of capital assets amount is offset by a deferred gain on capital assets of the same amount that is being amortized over the remaining life of the related assets. This treatment is in accordance with Yukon Utilities Board Order 2000-3.

The regulatory liabilities relate to proceeds received that are not connected to specified capital or operating and maintenance costs. The allocation of this amount will be subject to a YUB decision when the corporation files the final accounting for insurance proceeds.

The fire-related operations and maintenance expense proceeds were offset against the actual expenses incurred.

The adjustment to the reserve for uninsured losses is an offset to amounts charged to it in previous years and related to the fire claim.

The final accounting for insurance proceeds is subject to the review of the Yukon Utilities Board.

24. Comparative figures

Certain 1999 figures, which are presented for comparative purposes, have been restated to conform with the current year's presentation.

25. Non-consolidated financial information

The nature and size of operations of the corporation and its subsidiary, Yukon Energy Corporation, differ substantially. Audited financial statements of Yukon Energy Corporation for the year ended December 31, 2000 are also prepared and included in Yukon Development Corporation's annual report. Certain non-consolidated financial information of the corporation is provided in its annual report for interested parties.

Correction of an error in prior period financial statements

In 1996, there was an accounting error made in relation to a contribution made by the corporation to its subsidiary, Yukon Energy Corporation. On a non-consolidated basis, administration expenses were overstated by $480,000 and deferred charges were understated by $480,000. The effect of the correction of this error in the current period's financial statements is to increase retained earnings by $480,000 and increase deferred charges by $480,000 at the beginning of the year. The financial statements of prior periods presented for comparative purposes have been restated to reflect these adjustments.

NON-CONSOLIDATED BALANCE SHEET

as of December 31, 2000 (in thousands of dollars)

	2000	1999 (restated)
ASSETS		
Current assets		
Cash and short-term investments	$19,414	$18,014
Accounts receivable	106	82
Due from Yukon Energy Corporation	—	269
Current portion of investment	224	198
	19,744	**18,563**
Trust assets		
Rate Stabilization Fund	6,054	8,595
Investments		
Equity investments	39,000	39,000
Loans and advances	34,949	34,152
Direct financing lease	4,336	4,561
Capital assets	2,495	1,053
Deferred charges	3,496	1,454
	$110,074	**$107,378**
LIABILITIES		
Current liabilities		
Accounts payable	388	373
Interest payable	15	16
Due to Yukon Energy Corporation	1,429	–
Current portion of long-term debt	223	199
	$2,055	**$588**
Deferred revenue	6,374	6,272
Trust liabilities		
Rate Stabilization Fund	6,054	8,595
Long-term debt	4,333	4,556
	16,761	19,423
EQUITY		
Contributed capital	41,501	41,501
Retained earnings	49,757	45,866
	91,258	**87,367**
	$110,074	**$107,378**

NON-CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

for the year ended December 31, 2000 (in thousands of dollars)

	2000	1999 (restated)
Revenue		
Interest income	$3,054	$2,916
Dividend income	796	3,406
Other income	320	17
	4,170	**6,339**
Operating expenses		
Administration	681	769
Interest	(784)	(578)
Amortization	181	45
Transition costs	–	(7)
Energy efficiency	119	9
First Nations relations	56	9
Renewable energy	10	–
Research and development	16	179
Strategic infrastructure planning	–	51
	279	**477**
Net income	**3,891**	**5,862**
Retained earnings, beginning of year		
As previously reported	45,866	39,524
Correction of accounting error	–	480
As restated	45,866	40,004
Retained earnings, end of year	**$49,757**	**$45,866**

FINANCIAL SUMMARY

	2000	1999 (restated)	1998 (restated)	1997 (restated)	1996 (restated)
Earnings ($000)					
Revenues					
Electric sales	22,386	23,181	24,534	27,656	33,950
Other	1,339	139	(15)	298	65
Total revenues	23,725	23,320	24,519	27,954	34,015
Operating expenses					
Administration	9,078	5,006	4,665	4,365	3,557
Amortization	5,135	5,087	4,816	5,659	5,224
Management fee	–	–	–	807	793
Operations and maintenance	5,413	5,614	5,943	13,476	13,940
Total operating expenses	19,626	15,707	15,424	24,307	23,514
Operating income	4,099	7,613	9,095	3,647	10,501
Finance charges	(111)	451	1,480	2,798	2,739
Contingency reserves	50	50	50	50	50
Energy conservation grant	–	–	–	500	–
Loss (gain) on investments	–	–	–	31	–
Write-off of disallowed costs	–	–	–	–	–
Transition costs	–	(7)	70	880	–
Other expenses	202	248	155	–	–
Net earnings (loss)	3,958	6,871	7,340	(612)	7,712
Cash flows ($000)					
Operations	8,520	13,486	5,059	7,890	7,912
Capital expenditures	(9,656)	(11,900)	(4,994)	(1,920)	(5,041)
Investing	(226)	(1,414)	(576)	(408)	(658)
Financing	6,364	13,242	(2,139)	(4,891)	640
Other	–	–	(402)	(1,510)	(1,774)
Net inflow (outflow)	5,002	13,414	(3,052)	(839)	1,079
Balance sheet ($000)					
Capital assets					
Gross	165,715	156,496	145,058	142,863	139,716
Net	124,960	120,041	112,015	111,186	110,856
Investments	4,336	4,561	4,759	4,934	5,088
Total assets	178,606	173,232	145,740	140,650	139,365
Capitalization					
Long-term debt	45,232	46,019	46,772	47,584	49,157
Equity	102,747	98,789	91,918	84,684	84,665
Financial ratios					
Capital structure at year end					
Long-term debt %	31	32	34	36	37
Equity%	69	68	66	64	63
Weighted average borrowing					
Rate at year end %	7.68	7.70	7.71	7.72	8.76
Return on equity %	3.93	7.21	8.31	(0.72)	8.85
Interest coverage	3.19	4.68	5.96	0.78	3.82

DIRECTORS AND STAFF

at December 31, 2000

Yukon Development Corporation
P. O. Box 2703 (D-1)
Whitehorse, Yukon Y1A 2C6
Phone (867) 393-7069
Fax (867) 393-7071

Yukon Development Corporation Board of Directors, left to right: (back row) Fred Blanchard, Ray Wells, Pat Irvin; (front row) Duncan Sinclair, Sally Wright, Ed Chambers; absent: Carl Charlie, Aileen Horler

Board of Directors

Chair	Ray Wells
Vice-Chair	Ed Chambers
Directors	Fred Blanchard
	Carl Charlie
	Aileen Horler
	Pat Irvin
	Duncan Sinclair
	Sally Wright

Officers

President and CEO	Duncan Sinclair
Corporate Treasurer	Don Willems
Corporate Secretary	Duncan Sinclair
Assistant Corporate Secretary	Darlene Morgan

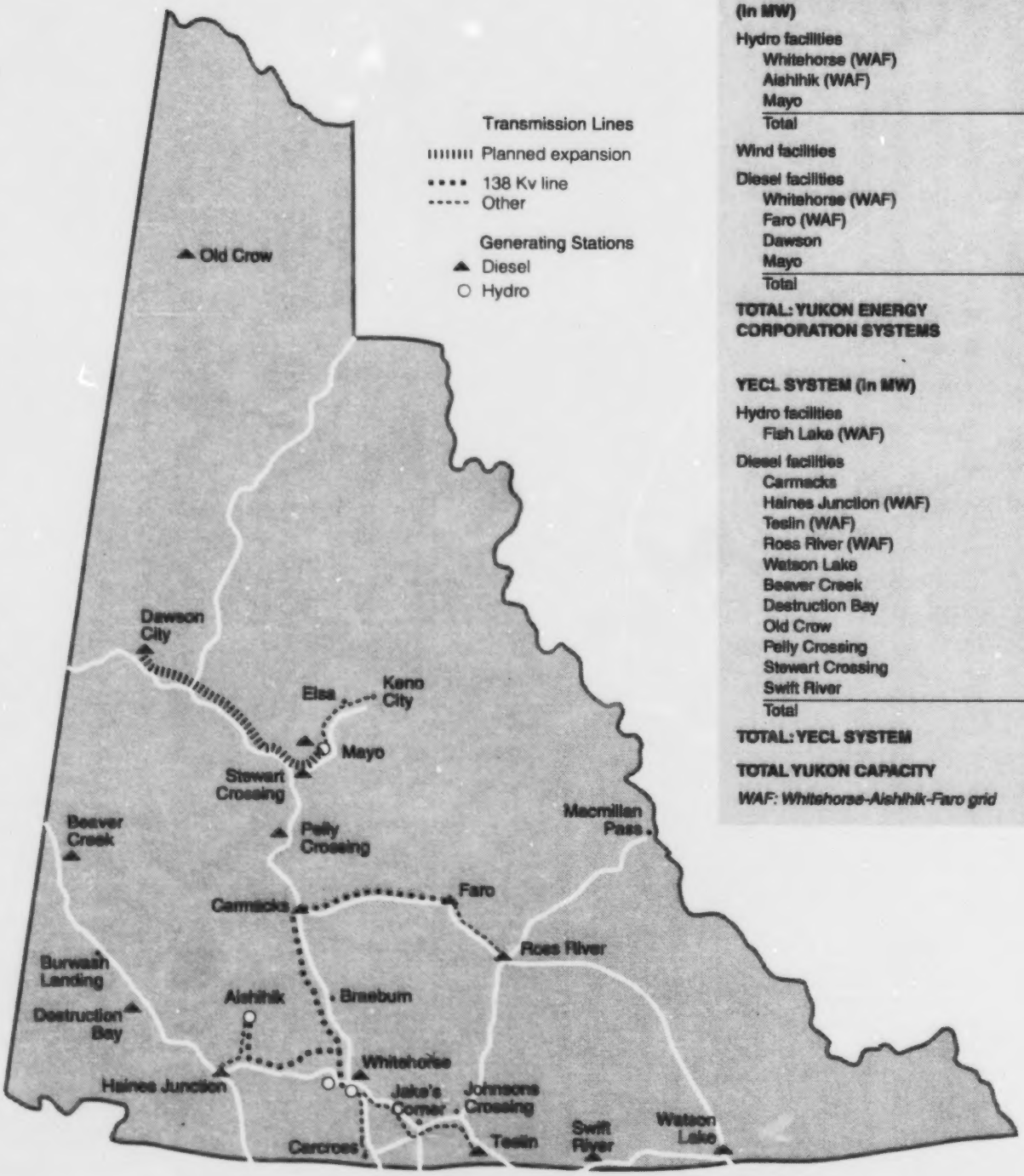
Audit Committee

Chair	Ed Chambers
Members	Pat Irvin
	Rob McWilliam

Auditors

Auditor General of Canada

ELECTRIC POWER FACILITIES IN THE YUKON



YUKON ENERGY CORPORATION SYSTEM (In MW)	
Hydro facilities	
Whitehorse (WAF)	40.0
Aishihik (WAF)	30.0
Mayo	5.0
Total	75.0
Wind facilities	0.8
Diesel facilities	
Whitehorse (WAF)	25.0
Faro (WAF)	7.3
Dawson	6.3
Mayo	1.6
Total	40.2
TOTAL: YUKON ENERGY CORPORATION SYSTEMS	**116.0**

YECL SYSTEM (In MW)	
Hydro facilities	
Fish Lake (WAF)	1.3
Diesel facilities	
Carmacks	1.5
Haines Junction (WAF)	0.1
Teslin (WAF)	1.5
Ross River (WAF)	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	0.7
Stewart Crossing	0.3
Swift River	0.3
Total	12.9
TOTAL: YECL SYSTEM	**14.2**
TOTAL YUKON CAPACITY	**130.2**

WAF: Whitehorse-Aishihik-Faro grid

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

YUKON ENERGY CORPORATION CORPORATE PROFILE

Established in 1987, Yukon Energy Corporation is a publicly owned, electrical utility that is incorporated, franchised and regulated by the *Business Corporations Act*, *Public Utilities Act*, and *Yukon Waters Act*.

Governed by a board of directors appointed by the shareholder, Yukon Energy Corporation is a wholly-owned subsidiary of Yukon Development Corporation.

The corporation is the primary producer and transmitter of electrical energy in the territory. It distributes electricity to wholesale and industrial customers as well as retail consumers in Dawson City, Faro, Mayo, Champagne and other rural areas in the territory.

Yukon Energy Corporation capacity is approximately 116 megawatts (MW) of electricity, 75 MW of which are provided by hydro facilities located at Whitehorse, Mayo and Aishihik Lake. Another 40 MW are supplied by diesel generators in Whitehorse, Faro, Mayo and Dawson City, while two wind turbines near Whitehorse produce about 0.8 MW of electricity. Annual electricity generation ranges from 260 to 460 gigawatt-hours (GWh), depending on customer demand.

At December 31, 2000, there were about 1,600 electricity consumers, located primarily in and around Dawson City, Mayo, Faro and Champagne, served directly by Yukon Energy Corporation. The corporation also indirectly serviced about 11,500 consumers in Yukon communities that receive power from the Whitehorse-Aishihik-Faro grid including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin.

INVESTING IN YUKON PEOPLE AND COMMUNITIES

Yukon Development Corporation President Duncan Sinclair, scholarship recipient Stephen Kirkham, Board of Directors Chair Ray Wells, scholarship recipient Brett Stevenson, Yukon Energy Corporation President Don Willems, at the inaugural awards ceremony for the Yukon Energy scholarship.

As part of its commitment to the people and communities it serves, Yukon Energy Corporation was proud to recently award Stephen Kirkham of Faro and Brett Stevenson of Whitehorse the Yukon Energy scholarship.

The scholarship was established by Yukon Energy Corporation and its parent company, Yukon Development Corporation, to assist students realize their potential and enhance local capacity. As Brett recently wrote, " ... the financial contribution you have made to my education ... was a very generous donation that will help a lot. I could never do it without organizations like yourselves."

The Yukon Energy scholarship, among the most lucrative, territorially based student awards, grants two annual scholarships, each totaling $4,000 and dispersed over two years. In its first year, the response was overwhelming, with many excellent applications among the 57 submissions received.

Evaluations are based on eligibility, academic performance and community citizenship. The application deadline is advertised each spring, with final decisions issued in mid summer.

YUKON ENERGY CORPORATION CORPORATE PROFILE

Established in 1987, Yukon Energy Corporation is a publicly owned, electrical utility that is incorporated, franchised and regulated by the *Business Corporations Act*, *Public Utilities Act*, and *Yukon Waters Act*.

Governed by a board of directors appointed by the shareholder, Yukon Energy Corporation is a wholly-owned subsidiary of Yukon Development Corporation.

The corporation is the primary producer and transmitter of electrical energy in the territory. It distributes electricity to wholesale and industrial customers as well as retail consumers in Dawson City, Faro, Mayo, Champagne and other rural areas in the territory.

Yukon Energy Corporation capacity is approximately 116 megawatts (MW) of electricity, 75 MW of which are provided by hydro facilities located at Whitehorse, Mayo and Aishihik Lake. Another 40 MW are supplied by diesel generators in Whitehorse, Faro, Mayo and Dawson City, while two wind turbines near Whitehorse produce about 0.8 MW of electricity. Annual electricity generation ranges from 260 to 460 gigawatt-hours (GWh), depending on customer demand.

At December 31, 2000, there were about 1,600 electricity consumers, located primarily in and around Dawson City, Mayo, Faro and Champagne, served directly by Yukon Energy Corporation. The corporation also indirectly serviced about 11,500 consumers in Yukon communities that receive power from the Whitehorse-Aishihik-Faro grid including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin.

INVESTING IN YUKON PEOPLE AND COMMUNITIES

Yukon Development Corporation President Duncan Sinclair, scholarship recipient Stephen Kirkham, Board of Directors Chair Ray Wells, scholarship recipient Brett Stevenson, Yukon Energy Corporation President Don Willems, at the inaugural awards ceremony for the Yukon Energy scholarship.

As part of its commitment to the people and communities it serves, Yukon Energy Corporation was proud to recently award Stephen Kirkham of Faro and Brett Stevenson of Whitehorse the Yukon Energy scholarship.

The scholarship was established by Yukon Energy Corporation and its parent company, Yukon Development Corporation, to assist students realize their potential and enhance local capacity. As Brett recently wrote, " ... the financial contribution you have made to my education ... was a very generous donation that will help a lot. I could never do it without organizations like yourselves."

The Yukon Energy scholarship, among the most lucrative, territorially based student awards, grants two annual scholarships, each totaling $4,000 and dispersed over two years. In its first year, the response was overwhelming, with many excellent applications among the 57 submissions received.

Evaluations are based on eligibility, academic performance and community citizenship. The application deadline is advertised each spring, with final decisions issued in mid summer.

THE YEAR IN REVIEW

HIGHLIGHTS

Electricity rates

In response to increased costs for diesel-generated electricity from rising world fuel prices, a temporary rate rider (Rider F) was added to power bills effective December 1, 2000. The bill surcharge of about 5 per cent was offset for the majority of consumers through the Yukon government's Rate Stabilization Fund delivered by Yukon Development Corporation.

Energy efficiency

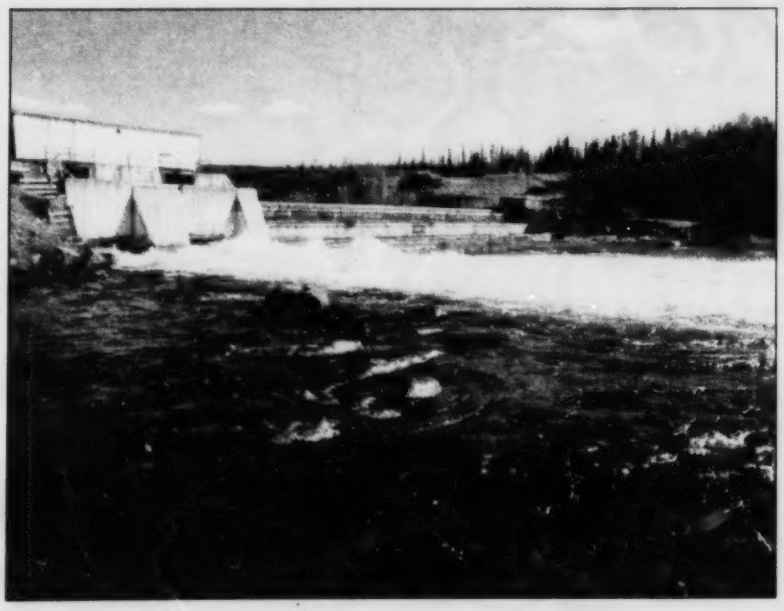
Yukon Energy Corporation partnered with its parent company to establish the Renewable Power Sales Incentive Program to sell surplus hydroelectricity to commercial and government customers for heating purposes. It was also involved in the House Calls Energy Efficiency Program delivered by the Yukon Conservation Society.

Environmental policy and practices

A 25-year licence for the Mayo hydro generating station was approved by the Yukon Territory Water Board in 2000. The regulatory process to secure a licence renewal for the Aishihik Lake hydro generating facility continued, despite a submission of the environmental impact assessment to federal authorities and a water licence application to the Yukon Territory Water Board a year earlier. A hearing to decide this matter is scheduled for the second quarter of 2001.

In 2000, the licence for the Mayo hydro generating station was approved by the Yukon Territory Water Board for another 25 years.

The planned construction of a transmission line will replace the primary use of diesel-generated electricity in Dawson City with cheaper, surplus hydro from the Mayo dam. It will reduce overall power production from fossil fuels as well as associated carbon dioxide emissions in the territory by 40 per cent.



Yukon Energy Corporation also prepared its second annual report to the Canadian Electricity Association Environmental Commitment and Responsibility Program. The Canadian Electricity Association measures the progress of utilities in practicing energy efficiency, promoting renewable sources to meet new demand and displace fossil fuel energy production, and mitigating the environmental effects of electricity production.

First Nation relations

A benefits agreement was reached with the First Nation of Nacho Nyak Dun and the Tr'ondëk Hwëch'in First Nation for the construction of the Mayo-Dawson City transmission line.

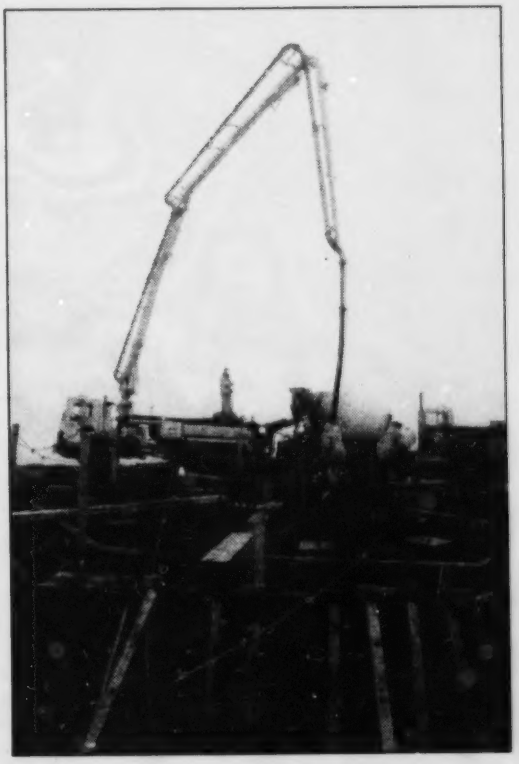
The agreement is consistent with the Chapter 22 provisions of the Umbrella Final Agreement and provides the First Nations with the prospect of deriving business and employment opportunities. It also creates a strategic investment opportunity for the Nacho Nyak Dun and Tr'ondëk Hwëch'in to purchase up to 49 per cent of the project.

Yukon Energy Corporation initiated mitigation and compensation measures with the Champagne & Aishihik First Nation for the hydroelectric facility at Aishihik Lake. The design and permitting for an erosion protection berm were completed but due to extremely wet weather, the preparation of materials was delayed. Interviews with compensation claimants were completed and the first year of the heritage monitoring and mitigation plan was implemented with First Nation cooperation.

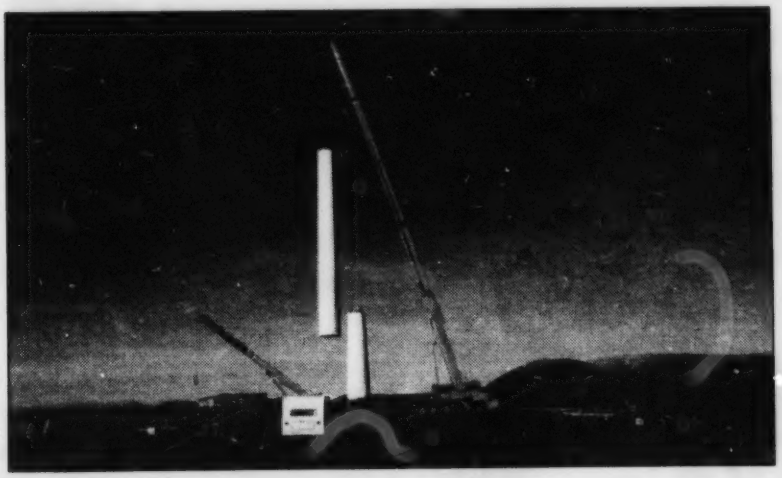
The delivery of the second wind turbine to the Haeckel Hill site was delayed due to the growing global demand for alternative energy systems.

Infrastructure initiatives

Yukon Energy Corporation finalized the technical design and financial estimates for the construction of a transmission line from the Mayo hydro facility to Dawson City in 2000 based on a peer review by BC Hydro International Limited. This enabled Yukon Energy Corporation's parent company, Yukon Development Corporation, to provide a $4 million, non-repayable contribution to offset capital costs and protect electricity rates from being negatively affected by the project. It also allowed the board of directors for both companies to approve the tender for the transmission line.



The construction and installation of the turbine is highly specialized and further positions the territory as a wind energy leader in sub-arctic climates.



MAYO-DAWSON CITY TRANSMISSION LINE PROJECT

The construction of a 223-kilometre transmission line from the Mayo hydro generating station to Dawson City is the largest capital project ever undertaken by Yukon Energy Corporation. The $27 million infrastructure initiative will displace diesel-generated power in Dawson City with cheaper, surplus hydroelectricity to eliminate fossil fuel power by 40% in the territory and remove up to 16,800 tonnes of greenhouse gases annually.

The reduction in diesel-generated electricity will lower utility system costs by $108 million over the project's 40-year life and decrease pressure to raise power rates due to volatile world fuel prices. The line extension will also stimulate regional development near the corridor and create short-term economic opportunities during construction. Yukon Energy Corporation is maximizing the local benefits by awarding the contract partly based on the use of Yukon companies and employment, and reaching socio-economic agreements with the Tr'ondëk Hwëch'in First Nation and the First Nation of Nacho Nyak Dun.

The project will be completed and activated in the fall of 2002.

In 2000, Yukon Energy Corporation installed a 660 kW Vestas commercial wind turbine on Haeckel Hill near Whitehorse with financial assistance from Yukon Development Corporation and the Yukon government. The turbine will substantially increase the territory's wind energy capacity and enable the utility to remain a leader in wind research and development in northern Canada.

Yukon Energy Corporation also partnered with its parent company to implement the Green Power Initiative by drafting net metering technical standards for alternative energy projects.

Renewable energy

Yukon Energy Corporation installed a commercial wind turbine on Haeckel Hill near Whitehorse to reduce the need for diesel-generated electricity on the Whitehorse-Aishihik-Faro grid to meet peak demand. It produces enough power in a year for 130 homes, which is equivalent to the electricity generated by 350,000 litres of diesel fuel.

Yukon Energy Corporation also partnered with Yukon Development Corporation in 2000 to design and administer the Community Wind Resource Assessment Program. It determines the wind potential for small and large-scale renewable energy applications and monitored five sites throughout the territory.

Other activities

Yukon Energy Corporation signed a protocol with its parent company to clarify the responsibilities and accountability of each party, similar to the arrangement reached between the Yukon government and Yukon Development Corporation.

The corporation continued to implement pay equity for bargaining unit positions based on the agreement with the Yukon Utilities Worker's Association.

Yukon Energy Corporation is expanding its wind energy capacity and enhancing local expertise through initiatives like the installation of the second wind turbine. It has the capacity to power 130 homes and to displace diesel-generated electricity during peak periods.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

micromedia
a division of IHS Canada

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

ENVIRONMENTAL PERFORMANCE

Consistent with its obligations to the Canadian Electricity Association's Environmental Commitment and Responsibility Program, Yukon Energy Corporation continued to adopt strong environmental and energy efficiency practices in 2000. The highlights include:

- A Vestas 660 kW wind turbine was successfully installed near Whitehorse. It increases Yukon Energy Corporation's wind production capacity to 810 kW and has the potential to displace about 350,000 litres of diesel fuel generation. This is equivalent to reducing greenhouse gas emissions by 900 to 1,000 metric tonnes per year.
- The Community Wind Resource Assessment Program was developed and implemented. It provides incentives and technical assistance for individuals and communities to assess wind energy as an alternative to diesel-generated electricity.
- The Renewable Power Sales Incentive Program was developed and implemented. It facilitates the use of renewable electricity generated during periods of hydro surplus to displace diesel fuel, propane or wood for heating.
- The Mayo hydro facility was re-licenced for a 25-year term. An arrangement was also reached with the federal Department of Fisheries and Oceans, Yukon Department of Renewable Resources, Yukon Salmon Committee and the Mayo District Renewable Resources Council to cooperate on salmon enhancement in the region.
- The Whitehorse Rapids Fish Hatchery was reconfigured and upgraded. The freshwater facility was expanded, the culture areas for the Chinook salmon were improved and a disinfection room was constructed between the freshwater and Chinook salmon facilities to address bio-security concerns.

RESEARCHING AND DEVELOPING TOMORROW'S FUEL TODAY

The Yukon Hydrogen Project is a joint initiative of Yukon Energy Corporation and Yukon Development Corporation examining the feasibility of hydrogen production, storage, transportation and various applications from hydrogen produced by surplus power on the Whitehorse-Aishihik-Faro grid. If feasible, hydrogen could become a credible fuel source to displace imported diesel fuel and reduce carbon dioxide emissions.

The second stage of the feasibility study will start in 2001 with private and public partners actively sought for technical and financial assistance. Various demonstration projects are currently under review such as off-grid camps, displacement of diesel-generated electricity in rural communities, heavy equipment and related mining applications, fleet vehicles including public transit, remote stand-alone systems and peak power generation.

ENVIRONMENTAL PERFORMANCE

Consistent with its obligations to the Canadian Electricity Association's Environmental Commitment and Responsibility Program, Yukon Energy Corporation continued to adopt strong environmental and energy efficiency practices in 2000. The highlights include:

- A Vestas 660 kW wind turbine was successfully installed near Whitehorse. It increases Yukon Energy Corporation's wind production capacity to 810 kW and has the potential to displace about 350,000 litres of diesel fuel generation. This is equivalent to reducing greenhouse gas emissions by 900 to 1,000 metric tonnes per year.
- The Community Wind Resource Assessment Program was developed and implemented. It provides incentives and technical assistance for individuals and communities to assess wind energy as an alternative to diesel-generated electricity.
- The Renewable Power Sales Incentive Program was developed and implemented. It facilitates the use of renewable electricity generated during periods of hydro surplus to displace diesel fuel, propane or wood for heating.
- The Mayo hydro facility was re-licenced for a 25-year term. An arrangement was also reached with the federal Department of Fisheries and Oceans, Yukon Department of Renewable Resources, Yukon Salmon Committee and the Mayo District Renewable Resources Council to cooperate on salmon enhancement in the region.
- The Whitehorse Rapids Fish Hatchery was reconfigured and upgraded. The freshwater facility was expanded, the culture areas for the Chinook salmon were improved and a disinfection room was constructed between the freshwater and Chinook salmon facilities to address bio-security concerns.

RESEARCHING AND DEVELOPING TOMORROW'S FUEL TODAY

The Yukon Hydrogen Project is a joint initiative of Yukon Energy Corporation and Yukon Development Corporation examining the feasibility of hydrogen production, storage, transportation and various applications from hydrogen produced by surplus power on the Whitehorse-Aishihik-Faro grid. If feasible, hydrogen could become a credible fuel source to displace imported diesel fuel and reduce carbon dioxide emissions.

The second stage of the feasibility study will start in 2001 with private and public partners actively sought for technical and financial assistance. Various demonstration projects are currently under review such as off-grid camps, displacement of diesel-generated electricity in rural communities, heavy equipment and related mining applications, fleet vehicles including public transit, remote stand-alone systems and peak power generation.

- The House Calls energy efficiency pilot project was expanded to reach 2000 homes, primarily in communities serviced by diesel-generated electricity. The program is a joint initiative of the public and private sectors and delivered by the Yukon Conservation Society. The goal is to decrease home energy consumption and reduce greenhouse gas emissions that contribute to climate change.
- A tender call was issued to select a qualified engineering and construction contractor for the Mayo-Dawson City transmission line. The project has the potential to reduce up to 16,800 tonnes of greenhouse gas emissions per year by displacing diesel-generated electricity in Dawson City with surplus hydropower from the Mayo dam.
- A heritage resource assessment was conducted along the route of the Mayo-Dawson City transmission line. Interviews with local people and mapping of traditional use sites and heritage resource areas along the route were completed in consultation with the First Nation of Nacho Nyak Dun and the Tr'ondëk Hwëch'in First Nation.

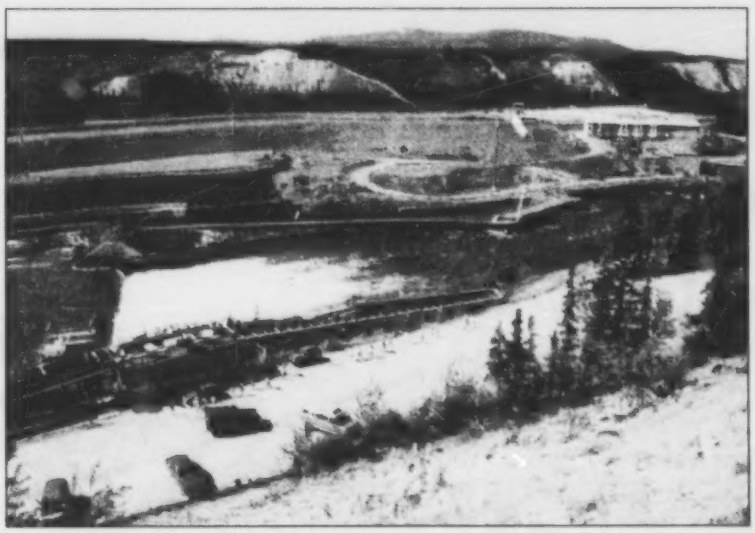
Each year, Yukon Energy Corporation partners with the Yukon Fish and Game Association to release thousands of salmon fry into Wolf Creek. The adult salmon return via the fish ladder, located next to the hydro generating facility in Whitehorse.

YUKON UTILITIES BOARD ORDERS

The Yukon Utilities Board issued the following orders, pursuant to the *Public Utilities Act*, which affect the business and affairs of Yukon Energy Corporation:

- Board Order 2000-1: Dismissing an energy stakeholder's application for a review and variance of Board Orders 1999-3 and 1999-5 (February 15, 2000).
- Board Order 2000-2: Awarding intervenor and hearing costs related to the Yukon Energy Corporation 1997 Final Rate Hearing (February 15, 2000).
- Board Order 2000-3: Approving Yukon Energy Corporation for a variance from Generally Accepted Accounting Principles in regard to the fire insurance proceeds from the Whitehorse Rapids Generating Facility (July 4, 2000).

CLIMBING THE LADDER HAS NEVER BEEN SO EASY...



Yukon Energy Corporation takes its environmental responsibilities seriously and continues to dedicate significant resources annually to mitigate the effects of its operations. In 2000, one of these projects involved upgrading the fish ladder at the Whitehorse hydroelectric generating facility, the longest wooden fish ladder in the world.

In the late 1990s, returning salmon were observed to have difficulty negotiating the ladder, which resulted in many fish mortalities. Design improvements were made through a co-operative effort between Yukon Energy Corporation, Department of Fisheries and Oceans and the Yukon government. The changes were a complete success with the migrating salmon successfully climbing the ladder and no mortalities reported in this year's run.

YUKON UTILITIES BOARD ORDERS

The Yukon Utilities Board issued the following orders, pursuant to the *Public Utilities Act*, which affect the business and affairs of Yukon Energy Corporation:

- Board Order 2000-1: Dismissing an energy stakeholder's application for a review and variance of Board Orders 1999-3 and 1999-5 (February 15, 2000).
- Board Order 2000-2: Awarding intervenor and hearing costs related to the Yukon Energy Corporation 1997 Final Rate Hearing (February 15, 2000).
- Board Order 2000-3: Approving Yukon Energy Corporation for a variance from Generally Accepted Accounting Principles in regard to the fire insurance proceeds from the Whitehorse Rapids Generating Facility (July 4, 2000).

CLIMBING THE LADDER HAS NEVER BEEN SO EASY...

Yukon Energy Corporation takes its environmental responsibilities seriously and continues to dedicate significant resources annually to mitigate the effects of its operations. In 2000, one of these projects involved upgrading the fish ladder at the Whitehorse hydroelectric generating facility, the longest wooden fish ladder in the world.

In the late 1990s, returning salmon were observed to have difficulty negotiating the ladder, which resulted in many fish mortalities. Design improvements were made through a co-operative effort between Yukon Energy Corporation, Department of Fisheries and Oceans and the Yukon government. The changes were a complete success with the migrating salmon successfully climbing the ladder and no mortalities reported in this year's run.

SUMMARY OF UTILITY OPERATIONS

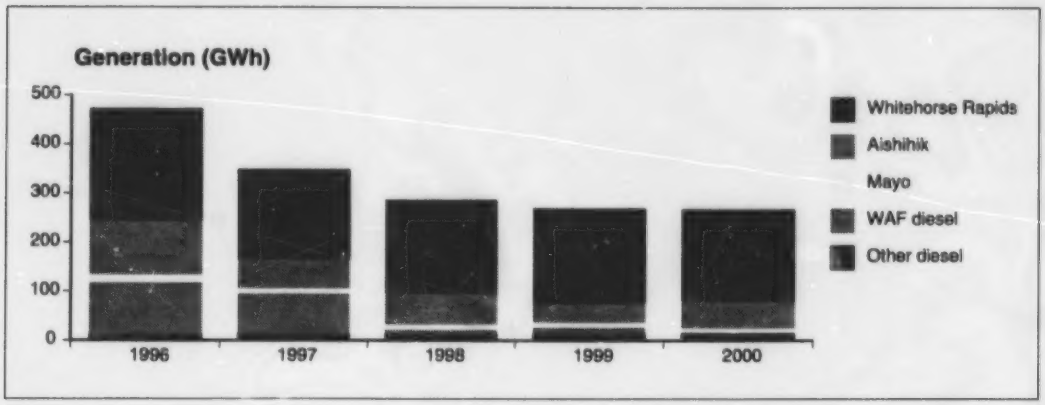
	2000	1999	1998	1997	1996
Generating capacity (in MW)					
Hydro	75	75	75	75	75
Diesel	40	45	45	45	45
Wind	1				
Total	116	120	120	120	120
Peak demand (in MW)					
WAF System	48	51	54	67	79
Mayo	3	3	3	3	4
Dawson	3	3	3	3	2
Total	54	57	60	73	84
Generation (in GWh)					
Hydro					
Whitehorse Rapids	187	195	191	183	229
Aishihik	56	38	63	59	110
Mayo	9	10	11	11	16
Total hydro	252	243	265	253	355
Diesel					
WAF system	1	12	7	82	105
Other	15	15	15	14	13
Total diesel	16	27	22	96	118
Total generation	268	270	287	349	473
% hydro	94.6	89.8	92.3	72.5	75.1
% diesel	5.4	10.2	7.7	27.5	24.9
Electric sales (in $000)					
Residential	1,325	1,372	1,519	1,555	1,648
General Service	1,954	1,959	2,045	1,978	1,795
Industrial	154	205	1,332	7,542	14,207
Wholesale	18,883	19,357	19,568	15,432	16,020
Other	72	288	70	1,149	280
	22,388	23,181	24,534	27,656	33,950
Electric sales (in MWh)					
Residential	9,887	10,321	11,403	12,796	14,112
General Service	12,426	12,390	12,981	13,561	13,607
Industrial	2,922	3,692	20,759	80,818	179,101
Wholesale	221,329	223,643	222,958	220,508	232,086
Other	240	227	223	233	229
	246,804	250,273	268,324	314,355	439,135

Note: The summary of utility operations has been prepared on a calendar year basis to coincide with the test periods used for rate-making and the fiscal year of Yukon Energy Corporation.

OPERATIONS AND FINANCIAL REVIEW

Generation

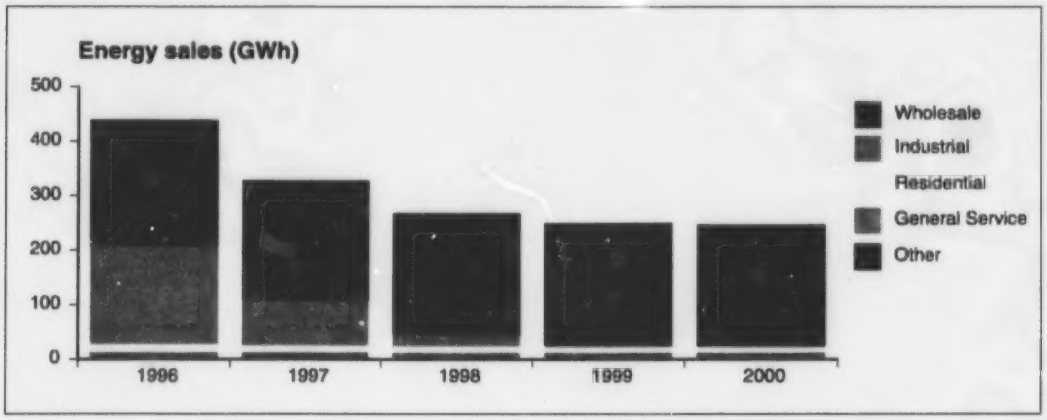
Production levels slightly decreased in 2000 to 268 GWh from 270 GWh in 1999. Hydroelectricity accounted for 94.6 per cent of total generation in 2000, compared to 89.8 per cent in 1999. The decrease in total generation reflects the reduction of diesel-generated electricity for peak periods due to a very warm winter.



Energy sales

Energy sales for 2000 declined by about 1.4 per cent to 247 GWh compared to 250 GWh in 1999. Sales dollar decreases of 5.4 per cent, 0.3 per cent, 24.9 per cent, 2.4 per cent and 75 per cent were felt in the residential, general service, industrial, wholesale and other categories respectively.

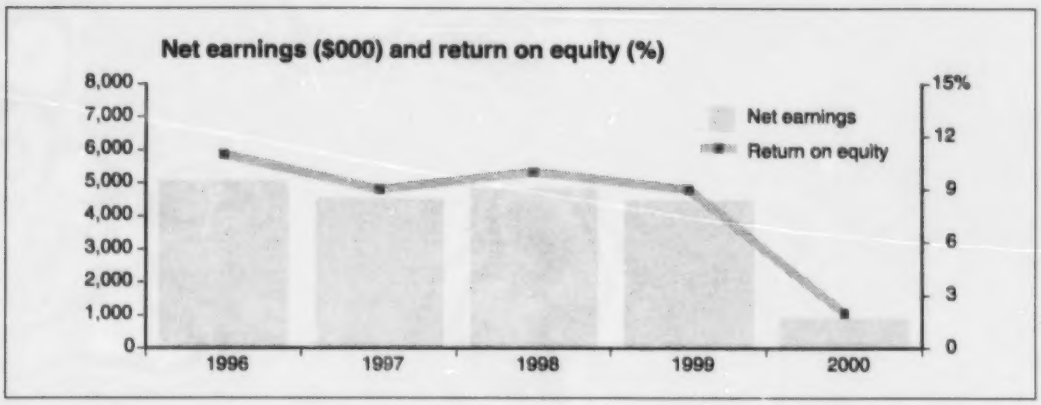
Sales revenue for the year that ended December 31, 2000 was $22.4 million compared to $23.1 million in 1999.



Financial review

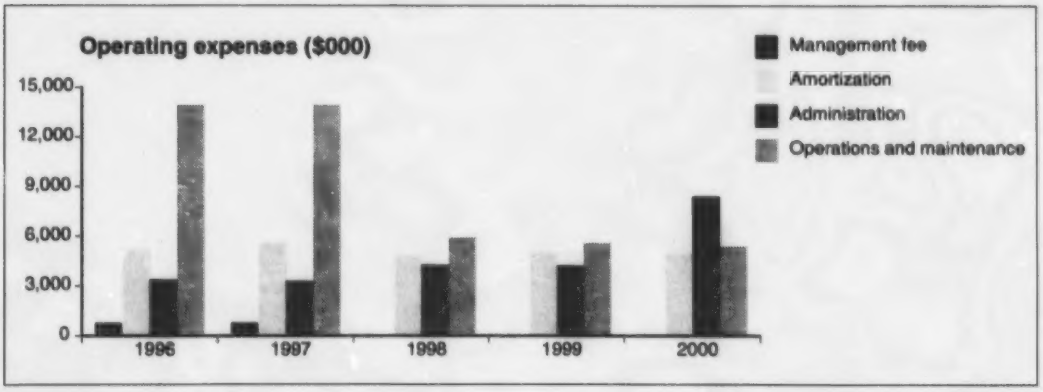
(thousands of dollars unless otherwise stated)

	2000	1999
Net earnings	938	4,489
Sale of power	22,386	23,181
Capital expenditures	4,572	10,776
Capital assets	119,450	118,014
Long-term debt	74,937	74,784
Return on equity (%)	1.9	8.92
Debt to equity	60:40	60:40



Operating expenses

Operating expenses were $18.8 million in 2000 compared to $14.9 million in 1999. Administration accounted for 44.8 per cent of the total whereas this figure was 28.5 per cent in 1999. Amortization was 26.4 per cent (1999 – 33.8%) while operations and maintenance accounted for 28.8 per cent compared to 37.7 per cent in 1999.



Administration expenses increased to $8.4 million in 2000 from $4.2 million in 1999. The increase is largely due to the write-off of receivable balances owing from two industrial customers. Amortization of capital assets totaled $4.6 million in 2000 compared to $4.3 million to 1999 while amortization of deferred charges declined to $0.4 million in 2000 from $0.8 million in 1999.

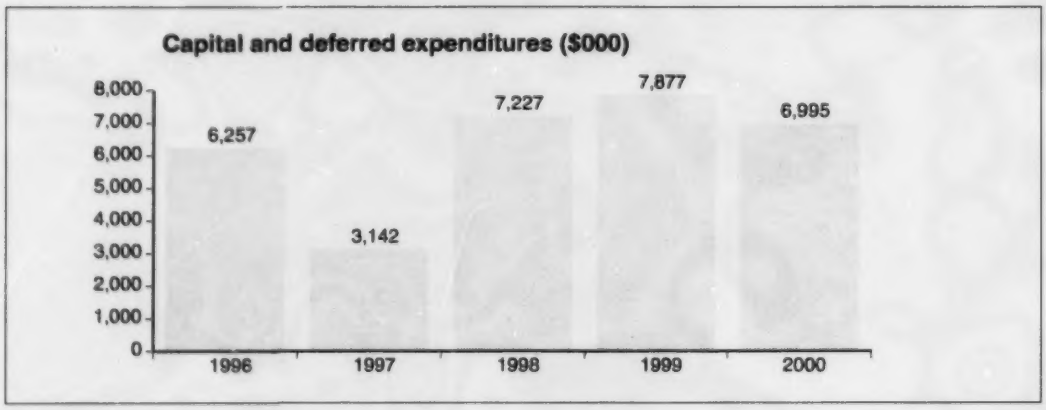
Operation and maintenance expenses decreased to $5.4 million in 2000 from $5.6 million in 1999.

Other expenses (income)

Finance charges include the corporation's interest expense offset by interest and finance income as well as the allowance for funds used during construction (AFUDC). The finance charges decreased to $3.7 million in 2000 from $3.9 million in 1999.

Capital and deferred expenditures

The corporation's principal requirement for funds is for capital and deferred expenditures on its utility assets. Capital and deferred expenditures totaled $7.0 million for 2000, down $7.5 million from expenditures of $14.5 miliion in 1999.



During 2000, capital spending totaled approximately $6.5 million compared to $10.1 million in the previous year. Expenditures for transmission projects increased to $415,000 from $231,000 from 1999. Spending for distribution projects was $126,000 compared to $358,000 a year earlier, while investment in generation projects declined to $3,107,000 from $5,835,000 in 1999. General property and equipment purchases increased to $1,820,000 from $1,159,000 in the previous year.

Deferred expenditures were $325,000 in 2000 compared to $1,044,000 in 1999. Major costs included $204,000 for feasibility studies ($696,000 in 1999) and $111,000 for dam safety.

Capital program

The highlights of Yukon Energy Corporation's capital spending in 2000 involved a broad range of projects.

A commercial wind turbine was installed adjacent to the existing unit on Haeckel Hill near Whitehorse and commissioned in late fall.

The Mayo-Dawson City transmission line significantly advanced once preliminary engineering and cost estimating by BC Hydro International Limited were completed in the summer. This enabled a pre-qualification call for general contractors to be issued in early fall, which was shortly followed by a Request for Proposals.

Throughout the year, finance staff worked to implement and commission the customer billing and J.D. Edwards financial systems.

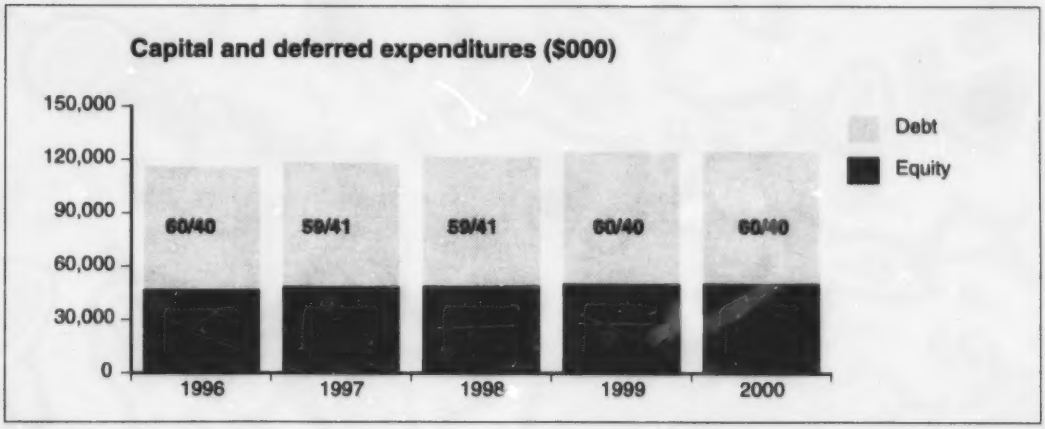
Distribution lines were installed or improved in Mendenhall, Mayo, and Dawson City, while enhancements were made to the transmission system, metering and protection mechanisms to maintain or improve power quality and reliability. Improvements were completed at the Aishihik generating plant and included an upgrade of information technology equipment and better energy efficiency.

Capital structure

At December 31, 2000, long-term debt totaled $74.9 million compared to $74.8 million in the previous year.

The corporation has an operating demand overdraft facility bearing interest at bank prime rate, allowing it to borrow up to $10 million.

At December 31, 2000, the corporation's weighted cost of debt financing was 8.2 per cent and the debt to equity ratio was 60:40, which is unchanged from 1999.



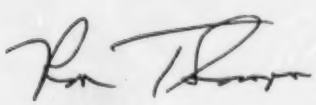
AUDITOR'S REPORT

Mr. Ray Wells
Chair, Yukon Energy Corporation

I have audited the balance sheet of Yukon Energy Corporation as of December 31, 2000 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in Canada. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as of December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada.



Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
August 1, 2001

BALANCE SHEET

as of December 31, 2000 (in thousands of dollars)

	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	$4,820	$1,218
Accounts receivable (note 5)	10,614	9,775
Inventories	2,153	811
Prepaid expenses	378	347
Due from Yukon Development Corporation (note 13)	1,429	-
	19,394	**12,151**
Long-term receivables		
Long-term receivables (note 6)	983	5,143
Mortgages receivable	137	47
	1,120	**5,190**
Diesel Contingency Fund (note 7)	**(61)**	**(57)**
Capital assets (notes 8 and 11)	**119,450**	**118,014**
Reserve for uninsured losses (note 9)	**316**	**746**
Deferred charges (note 10)	**4,168**	**3,711**
	$144,387	**$139,755**
LIABILITIES		
Current liabilities		
Accounts payable	2,069	2,617
Current portion of long-term debt (note 11)	687	631
Regulatory liabilities (note 12)	2,086	465
Due to Yukon Development Corporation (note 13)	–	269
	4,842	**3,982**
Deferred revenues (note 14)	**9,608**	**6,703**
Reserve for future removal and site restoration costs	**4,645**	**4,069**
Diesel Contingency Fund (note 7)	**(61)**	**(57)**
Long-term debt (note 11)	**74,937**	**74,784**
	93,971	**89,481**
SHAREHOLDER'S EQUITY		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
Retained earnings	11,416	11,274
	50,416	**50,274**
	$144,387	**$139,755**

The accompanying notes are an integral part of the financial statements.
Contingencies and commitments (Note 17)

Approved by the Board:

Chair

Director

STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31, 2000 (in thousands of dollars)

	2000	1999
Revenue		
Sales of power	$22,386	$23,181
Other	1,019	122
Water level reimbursement from parent	74	74
	23,479	**23,377**
Operating expenses		
Administration	8,397	4,237
Operations and maintenance	5,413	5,614
Amortization of capital assets	4,557	4,250
Amortization of deferred charges	397	792
	18,764	**14,893**
Income from operations	4,715	8,484
Other expenses (income)		
Finance charges, net (notes 13 and 15)	3,727	3,945
Provision for contingency reserves	50	50
	3,777	**3,995**
Net income	**938**	**4,489**
Retained earnings, beginning of year	**11,274**	**10,191**
Dividend	**(796)**	**(3,406)**
Retained earnings, end of year	**$11,416**	**$11,274**

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

for the year ended December 31, 2000 (in thousands of dollars)

	2000	1999
Cash provided by (used in) operating activities		
Net income	**$938**	**$4,489**
Items not resulting in a cash payment:		
Amortization of capital assets	4,557	4,250
Amortization of deferred charges	397	792
Increase in reserve for future removal and site restoration cost	575	537
	5,529	**5,579**
Changes in non-cash components of working capital		
(Increase) in accounts receivable	(838)	(455)
(Increase) in inventories	(1,341)	(106)
(Increase) in prepaid expenses	(31)	(66)
(Decrease) increase in Due to Yukon Development Corporation	(1,698)	416
(Decrease) increase in accounts payable	(549)	1,021
Increase in regulatory liability	1,620	171
	(2,837)	**981**
Cash provided by operating activities	**3,630**	**11,049**
Cash provided by (used in) investing activities		
Additions to capital assets	(6,111)	(10,776)
Contributions for plant extension	119	(473)
(Increase) in deferred charges	(854)	(753)
Increase (decrease) in reserve for uninsured losses	430	(125)
Cash used in investing activities	**(6,416)**	**(12,127)**
Cash provided by (used in) financing activities		
Additions to long-term debt	796	3,406
Repayments of long-term debt	(588)	(1,558)
Decrease in long-term receivables	4,071	999
Increase in deferred revenue	2,905	6,360
Dividends paid	(796)	(3,406)
Cash provided by financing activities	**6,388**	**5,801**
Net increase in cash during the year	**3,602**	**4,723**
Cash and cash equivalents, beginning of year	**1,218**	**(3,505)**
Cash and cash equivalents (bank indebtedness), end of year	**$4,820**	**$1,218**

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 (tabular amounts in thousands of dollars)

1. Nature of operations

Yukon Energy Corporation ("the corporation") was incorporated under the Yukon *Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation, a Yukon Crown Corporation. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon.

2. Significant accounting policies

Financial statement presentation

The financial statements of the corporation have been prepared by management and conform to accounting principles generally accepted in Canada and take into account generally accepted methods and practices of regulatory bodies. The regulatory accounting practices adopted by the corporation may differ from the accounting practices otherwise applied in unregulated enterprises. In particular, the timing of the corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using generally accepted accounting principles. A description of the significant accounting policies follows.

Water regulation

The Yukon Territory Water Board decides if, and for how long, the corporation will have a water licence for the purposes of operating dams for hydro generation. The licences will also indicate terms and conditions for the operation of dams. The costs incurred in securing a licence are amortized over the term of the existing licence plus the expected term of the renewed licence.

Rate regulation

The corporation is regulated by the Yukon Territory Water Board pursuant to the *Yukon Waters Act* (Canada) and the Yukon Utilities Board (YUB) pursuant to the *Public Utilities Act* (Yukon). The regulatory process begins when the corporation makes a General Rate Application for its proposed electricity rate changes over the next one or two years. The Yukon Utilities Board must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon government through Orders-in-Council that specify how the interests of the customer and the utilities are to be balanced.

The YUB follows a two-stage decision process. In the first stage, the total costs that the utility will incur by making electricity available to its customers over the immediate future are approved. The approval of these costs determines the total revenues the utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and

- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by a cost-of-service study which allocates utility costs to the various customer classes on the basis of appropriate costing principles. The determination of rates is also affected by Orders-in-Council, which give specific government direction to the board.

Normally, the corporation applies for rates in advance of the applicable years. A hearing takes place and rates are approved as final. Interim hearings and interim rates may be used to deal with unforeseen circumstances.

Capital assets

Capital assets are stated at cost which includes materials, direct and indirect labour, an appropriate allocation of administrative overhead and finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 35 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Transportation	13 to 14 years
Other equipment	5 to 15 years

The corporation capitalizes development studies and an allowance for funds used during construction (AFUDC) at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to supply customers' specific requirements. These contributions are amortized to income on the same basis as, and offset the amortization charge of, the assets to which they relate. Capital assets are disclosed net of unamortized contributions. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Inventories

Inventories which consist of materials, supplies and diesel fuel are recorded at the lower of average cost or replacement value.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

All demand-side management expenditures related to administration expenses and information programs are expensed as incurred, while costs related to specific incentive programs are deferred and amortized to earnings on a straight-line basis over five years.

Planning and study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are amortized to earnings over five years starting in the year that the project is abandoned.

Costs related to water licence renewals are deferred and amortized to earnings over the term of the existing licence plus the expected term of the renewed licence, which is generally a long-term arrangement of 25 years.

Regulatory hearing costs are deferred and amortized to earnings over the period to which the hearing relates.

General equipment overhaul expenditures in excess of $250,000 are deferred and amortized to earnings on a straight-line basis over five years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Reserve for uninsured losses

The corporation maintains a reserve for uninsured losses. An appropriation to the reserve of $50,000 is made annually as a charge to expenses. Uninsured losses are charged directly against the reserve.

Reserve for future removal and site restoration cost

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset, net of expected recoveries. These costs are amortized over the estimated useful life of the asset on a straight-line basis.

Revenue recognition

Revenue from the sale of power is recorded when electricity is delivered.

Measurement uncertainty

The preparation of financial statements in accordance with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, the reserve for future removal and site restoration, and other long-term receivables. Actual results could differ from these estimates.

3. Change in accounting policy - pension plan

Accounting principles generally accepted in Canada require the corporation to recognize the cost of retirement benefits over the periods in which employees render services to the corporation in return for the benefits. This change has been applied on a prospective basis without restatement of the results of individual prior periods. As a result of the change, the corporation recorded an unamortized transitional asset of $287,500 as of December 31, 2000 and the corresponding amortization of this asset reduced the pension expense by $16,900.

4. Cash and cash equivalents

	2000	1999
Bank balance	$4,740	$1,142
Short-term investments	80	76
	$4,820	**$1,218**

Short-term investments are monies invested in a pooled money market fund. The fixed-term securities held in the fund have an average maturity less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2000 was 6.03% (1999 – 5.22%).

The corporation also has, if needed, an operating demand line of credit with its banker that allows the corporation to borrow up to $10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon government.

5. Accounts receivable

	2000	1999
Fire insurance claim (note 20)	$4,787	$3,121
Rate adjustment receivable	2,103	2,960
Retail energy sales	1,940	1,707
Wholesale energy sales	1,664	1,618
Other	120	369
	$10,614	**$9,775**

Accounts receivable includes $2,203,000 (1999 – $2,143,000) due from The Yukon Electrical Company Limited. The corporation's sales to The Yukon Electrical Company Limited were approximately $15,020,000 (1999 – $15,258,000) but due to the wholesale nature of the sales, the corporation is not economically dependent on them.

6. Long-term receivables

	2000	1999
Anvil Range Mine Rider J cost-of-service shortfall	$925	$1,850
Anvil Range Mine Rider G balance	58	116
Anvil Range Mine bad debt	–	3,177
	$983	**$5,143**

The corporation is exposed to credit risks in the event of non-performance by counterparties to financial instruments. Operations of the Anvil Range Mine in Faro ceased in January 1998 and the Anvil Range Mining Corporation applied for court protection from its creditors. The corporation requested in the April 22, 1998 rate application that the Anvil Range bad debt balance be recovered from its customers over five years. This application was denied by the Yukon Utilities Board in Board Order 1998-5. The corporation appealed this decision to the Court of Appeal which dismissed it on April 27, 2001.

Accordingly, the corporation has written down the Anvil Range Mine bad debt balance to its net realizable value (NRV). This NRV was estimated by the corporation's legal counsel based on a review of the Plan of Arrangement resulting from Anvil Range Mine bankruptcy proceedings. The estimated NRV of this debt is $633,000 and is included in the corporation's Accounts Receivable balance on the balance sheet at December 31, 2000. The remaining Anvil Mine Range bad debt was written off to Administration expenses during fiscal year 2000.

In accordance with Board Order 1998-5, the corporation recorded the cost-of-service shortfalls as a long-term receivable of $1,850,000 for 1999 and $925,000 for 2000, and recorded Rider G balance of $116,000 for 1999 and $58,000 for 2000, related to the closure of Anvil Range Mine. The Yukon Utilities Board has ordered that this long-term receivable be included in the rate base of the corporation. The board also ordered that the amount to be included in the corporation's rate base be reduced by $925,000 per year commencing in 1998 for the cost-of-service shortfall and $58,000 per year for Rider G.

7. Diesel Contingency Fund

The Diesel Contingency Fund was established through Board Order 1996-6 by the Yukon Utilities Board. The fund is administered by the corporation on behalf of the Yukon Utilities Board and, as such, is recorded as a trust asset and a trust liability.

	2000	1999
Opening balance	$(57)	$2,236
Interest	(4)	13
Hydro availability buildup (drawdown)	–	(1,132)
Yukon Utilities Board Order 1998-5 and 1997-7	–	(1,174)
Closing balance	**(61)**	**(57)**

As part of the review of the corporation's filing on the impacts of the Whitehorse Rapids Generating Facility fire insurance settlement, the Yukon Utilities Board may adjust the balance in the fund.

8. Capital assets

	Cost	Accumulated amortization	2000 Net book value	1999 Net book value
Hydro-electric and diesel plants	$121,462	$29,812	$91,650	$91,177
Transmission	18,768	5,758	13,010	13,175
Distribution	9,954	3,035	6,919	6,154
Buildings and other equipment	10,584	2,384	8,200	7,092
Transportation	852	118	734	680
Land	110	–	110	110
Construction-in-progress	1,437	–	1,437	2,230
	163,167	**41,107**	**122,060**	**120,618**
Less:				
Contributions for plant extensions	3,187	577	2,610	2,604
	$159,980	**$40,530**	**$119,450**	**$118,014**

The above amounts exclude the costs of assets which were damaged and destroyed in the October 30, 1997 fire at the Whitehorse Rapids Generating Facility. The costs of the assets that were used to reconstruct the facility equaled $13,395,000 and are included in the capital asset costs above. As an offset, an amount equal to $11,604,000 representing insurance proceeds received to cover the cost of reconstruction is accounted for as a deferred revenue (see notes 14 and 20). The difference, equal to $1,791,000 (1999 – $1,991,000), represents the value of betterments which improved the facility beyond the value replaced by the insurance proceeds.

9. Reserve for uninsured losses

	2000	1999
Opening balance	$746	$621
Expense	(50)	(50)
Reimbursement of fire-related costs	(503)	–
Losses incurred		
Asset replacement	3	67
Line failures	–	33
Wind storm	84	75
Whitehorse Rapids generation interruption	36	–
Closing balance	**$316**	**$746**

The corporation's target balance for the reserve for uninsured losses is based on its past experience. The corporation will be applying to the Yukon Utilities Board for approval to increase the reserve.

As a result of the fire at the Whitehorse Rapids Generating Facility, approximately $503,000 was charged to the reserve during 1997 and 1998 ($100,000 for the deductible under the corporation's insurance policy and $403,000 for fire-related diesel generation not specifically covered by the corporation's insurance policy). Given that the company was able to negotiate a "gain on insurance proceeds" under its insurance policy, the reserve has been reimbursed for these fire-related costs. However, all adjustments to the reserve are subject to YUB approval and the corporation will be seeking approval of these adjustments when it reports to the board on the fire impacts.

10. Deferred charges

			2000	1999
	Cost	Accumulated amortization	Net book value	Net book value
Relicencing	$4,095	$657	$3,438	$3,429
Feasibility studies	417	179	238	98
Generating equipment overhauls	834	526	308	474
Dam safety review	91	18	73	–
Diesel fuel price adjustment	111	–	111	(290)
	$5,548	**$1,380**	**$4,168**	**$3,711**

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

The corporation is authorized by Order-in-Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel without the requirement for specific application to and approval of the Yukon Utilities Board. Fluctuations in diesel fuel costs from approved levels are deferred and recovered or refunded over designated future periods prescribed by the YUB through revised rates charged to customers.

11. Long-term debt

The corporation's long-term debt is summarized as follows:

	2000	1999
Government of Canada		
$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of $1,000,000 interest and principle, with the balance due January 1, 2028.	$29,546	$29,800
Yukon Development Corporation		
Unsecured advances bearing interest at 9.79% due one year after demand.	17,158	17,158
Unsecured advances bearing interest at 8.94% due one year after demand.	1,654	1,654
Unsecured advances bearing interest at 10.24% due one year after demand.	1,627	1,627
Unsecured advances bearing interest at 9.17% due one year after demand.	1,696	1,696
Unsecured advances bearing interest at 8.78% due one year after demand.	3,285	3,285
Unsecured advances bearing interest at 7.12% due one year after demand.	1,110	1,110
Unsecured advances bearing interest at 6.68% due one year after demand.	4,216	4,216
Unsecured advances bearing interest at 7.49% due one year after demand.	3,406	3,406
Unsecured advances bearing interest at 6.82% due one year after demand.	796	–
TD Canada Trust		
$12,400,000 term note bearing interest at 7.94% payable in monthly installments of $102,000 interest and principle, with the balance of $67,000 due October 31, 2016. The note is guaranteed by the Yukon government.	11,130	11,463
	75,624	**75,415**
Less: Current portion	687	631
	$74,937	**$74,784**

Government of Canada note

The proceeds of the Government of Canada flexible term note were part of the consideration used in 1987 to acquire the assets of Northern Canada Power Commission. The note is secured by a mortgage against the acquired assets.

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts.

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2001	$687
2002	703
2003	742
2004	783
2005	828
Thereafter	71,881
	$75,624

Fair value

Fair value of $77,020,000 (1999 – $78,430,000) for all long-term debt was estimated using discounted cash flows based on an estimate of the corporation's current borrowing rate for similar borrowing arrangements.

12. Regulatory liabilities

	2000	1999
Insurance proceeds held on behalf of ratepayers	$1,488	$ –
Anvil Range Mine dewater revenue	598	465
	$2,086	**$465**

The insurance proceeds held on behalf of ratepayers represents the residual balance of insurance proceeds after allocation against all known fire-related reconstruction and operation and maintenance costs. The proceeds realized from the corporation's insurance policy were as follows:

Property	
• Indemnity for costs of reconstruction of destroyed facility	$10,707
Generating extra expense use and occupancy insurance valued form	
• Extra expense indemnity for reconstruction costs of the facilities (required to expedite repair and reconstruction) and related increased operations and maintenance expenses	1,042
• Indemnity for additional costs of diesel generation and related costs arising from the fire	1,095
• Indemnity for per diem amounts for interruption of use of Whitehorse Rapids Generating Facility	1,674
	$14,518

After reducing this balance by $29,000 for costs incurred in 2001, the proceeds from insurance were allocated to offset: total reconstruction costs of $11,604,000 (an equal amount has been placed in the "Deferred gain on fire insurance proceeds - capital assets" (see note 14)); actual operating and maintenance costs of $894,000 relating to the fire (recorded as Administration Expense with an offsetting amount recognized as Other Revenue on the Statement of Income and Retained Earnings for the year ended

December 31, 2000); and $503,000 of costs related to the fire that were charged to the reserve for uninsured losses (see note 9), leaving a balance of $1,488,000.

The corporation is required to use the balance of the insurance proceeds for the benefit of ratepayers. The allocation of this amount will be the subject of a decision by the Yukon Utilities Board when the corporation files its report to the YUB related to the fire (see additional explanations in note 20). As part of this report, the corporation will outline any impact to the Diesel Contingency Fund as it may affect the ultimate allocation of insurance proceeds.

Anvil Range Mine dewater revenue derives from Rate Schedule 34 customers, of which the Anvil Range Mine represents the only customer. As directed by the Yukon Utilities Board in Board Order 1998-5, the corporation is deferring revenues collected from this rate class until application to the benefit of customers is directed by the YUB.

13. Related party transactions

Entity	Relationship	Transaction/Balance	Recorded as	2000	1999
Yukon Development Corporation	Parent	Interest payments	Finance charges	$3,054	$2,916
		Receivable (payable) for costs	Due (to) from Yukon Development Corporation	1,429	(269)

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These balances are payable on demand and have arisen from the sales of products and services referred to above.

14. Deferred revenues

	2000	1999
Deferred maintenance reserve	$74	$148
Deferred gain on fire insurance proceeds - capital assets (net of amortization and adjustments $2,070,000 (1999 – $2,501,000))	9,534	6,555
	$9,608	**$6,703**

The maintenance reserve was established to offset the future maintenance cost related to compensation received by the corporation under the Aishihik Order-in-Council 1997/12 passed by the Yukon government. The reserve was established in 1997, and is being taken into income on a straight-line basis over 5 years.

The deferred gain represents the gain resulting from insurance proceeds received in relation to the reconstruction of facilities ($11,604,000; see notes 8 and 12) in excess of net book value of assets destroyed by fire. The gain is being amortized to income at the same rate that the replacement assets are being amortized, as approved by YUB Order 2000-3 (see

note 8). Now that the fire insurance claim is final, the corporation is required to file a report with the Yukon Utilities Board on the fire-related impact to the corporation. At that time, it will seek approval to include both the reconstruction costs of the facility and the deferred gain into the rate base in the manner set out in YUB Order 2000-3.

15. Finance charges, net

	2000	1999
Interest on long-term debt	$4,339	$4,240
Other interest	–	52
Interest income	(489)	(73)
Allowance for funds used during construction (AFUDC)	(123)	(274)
	$3,727	$3,945

16. Pension costs and obligations

The corporation has a defined benefit pension plan, which provides for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees. Pension costs include the current cost-of-service and amortization of past service benefits and plan enhancements, and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members, which is currently 18 years.

The corporation has contracted with external organizations to provide services of trustee, administrator, and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of December 31, 1997 by the consulting actuarial firm Aon Consulting Inc. The results of the December 31, 1997 valuation have been projected to December 31, 2000 in accordance with generally accepted actuarial standards. The actuarial valuation includes services rendered by members under the Yukon Energy Corporation Pension Plan from January 1, 1998 to December 31, 2000, and service credits in respect of pre-1998 service transferred to the Yukon Energy Corporation Employees Pension Plan from the Canadian Utilities Employees Pension Plan under the Acknowledgement and Agreement between Yukon Energy Corporation and The Yukon Electrical Company Ltd., dated February 5, 1999.

The fair value of the plan assets is based on market values as reported by Royal Trust as of December 31, 2000.

The following table sets out the assumptions and pension amounts as of December 31, 2000. The corporation's employees have the option to belong to the corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). As of

December 31, 2000, the corporation's defined pension plan had 41 members, and the RRSP plan had 12 members.

Pension benefits are based on:

- years of pensionable service,
- the average annual earnings during any 5 consecutive years of pensionable service where earnings are the highest, and
- the average of the year's maximum pensionable earnings (Canada Pension Plan) for the same 5-year period.

Annual cost of living increases to a maximum of 3% are provided to pensioners. The corporation contributes amounts as prescribed by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings
- 5% of earnings in excess of year's maximum pensionable earnings

to a maximum of $2,500 per year.

Information about the company's defined benefit plan as of December 31, 2000 in aggregate, is as follows:

	2000	1999
Discount rate	7.00%	7.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Assumed rate of salary escalation	3.75%	3.75%
Expected average remaining service life of employees	18 years	18 years
Benefit obligation determined by actuarial valuation	$4,397	$3,298
Fair value of plan assets	4,262	3,615
Plan surplus (deficit)	(135)	317
Accrued benefit liability	(35)	(34)
Pension expense	202	222
Employer contributions	236	193
Employee contributions	87	85
Benefits paid	(8)	(35)

17. Contingencies and commitments

Mayo to Dawson transmission line contract

Subsequent to year end, the corporation entered into a contract for the construction of a transmission line from the Mayo hydro generation plant to the Dawson distribution system. The total cost of the contract is $22 million, payable over the course of construction, which is estimated to be 19 months. The cost of the contract will be financed via a combination

of debt and grants from the corporation's parent and a portion will be financed by internally generated funds.

18. Commodity price risk

The corporation purchases fuel oil to generate electricity in a number of communities. To mitigate the risk of market price volatility, it has purchased a number of fuel oil price hedges during 2000. These hedges are for risk mitigation only and are not held for trading purposes. During 2000, the corporation recognized gains of $30,000. At December 31, 2000, it held fuel oil price hedges on 1,590,000 litres of fuel oil, at an average settlement price of $0.33/litre. These hedges will expire in June 2001.

19. Environmental liabilities

The corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The corporation conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the corporation, is considered probable and the costs can be reasonably estimated. To date, no such liabilities have been recorded in the corporation's accounts.

20. Subsequent event - fire insurance claim settlement

Subsequent to year end, the corporation settled insurance claims related to a fire that occurred at the Whitehorse Rapids Generating Facility on October 30, 1997. The total proceeds from these claims are $14,489,000 and have been accounted for in the corporation's books of account as follows:

Reconstruction of capital assets	$11,604
Regulatory liabilities	1,488
Fire-related operations & maintenance expenses	894
Adjustment to reserve for uninsured losses	503
	$14,489

The reconstruction of capital assets amount is offset by a deferred gain on capital assets of the same amount that is being amortized over the remaining life of the related assets. This treatment is in accordance with Yukon Utilities Board Order 2000-3.

The regulatory liabilities relate to proceeds received that are not connected to specified capital or operating and maintenance costs. The allocation of this amount will be subject to a YUB decision when the corporation files the final accounting for insurance proceeds.

The fire-related operations and maintenance expense proceeds were offset against the actual expenses incurred.

The adjustment to the reserve for uninsured losses is an offset to amounts charged to it in previous years and related to the fire claim .

The final accounting for insurance proceeds is subject to the review of the Yukon Utilities Board.

21. Comparative figures

Certain 1999 figures, which are presented for comparative purposes, have been reclassified to agree with the current year's presentation.

DIRECTORS AND STAFF

at December 31, 2000

Yukon Energy Corporation
P. O. Box 5920
Whitehorse, Yukon Y1A 6S7
Phone (867) 393-5300
Toll free in the Yukon 1-877-712-3375
Fax (867) 393-5323

Yukon Energy Corporation Board of Directors, left to right: (back row) Fred Blanchard, Ray Wells, Pat Irvin; (front row) Duncan Sinclair, Sally Wright, Ed Chambers; absent: Carl Charlie, Aileen Horler, Ray Robinson

Board of Directors

Chair	Ray Wells
Vice-Chair	Ed Chambers
Directors	Fred Blanchard
	Carl Charlie
	Aileen Horler
	Pat Irvin
	Duncan Sinclair
	Sally Wright

Officers

President and CEO	Ray Robinson
Corporate Treasurer	Don Willems
Corporate Secretary	Duncan Sinclair
Assistant Corporate Secretary	Monica Lauer
Officer	John Maissan

Audit Committee

Chair	Ed Chambers
Members	Pat Irvin
	Ray Robinson

Human Resources Committee

Chair	Ray Wells
Members	Aileen Horler
	Ray Robinson
	Sally Wright

Auditors

Auditor General of Canada